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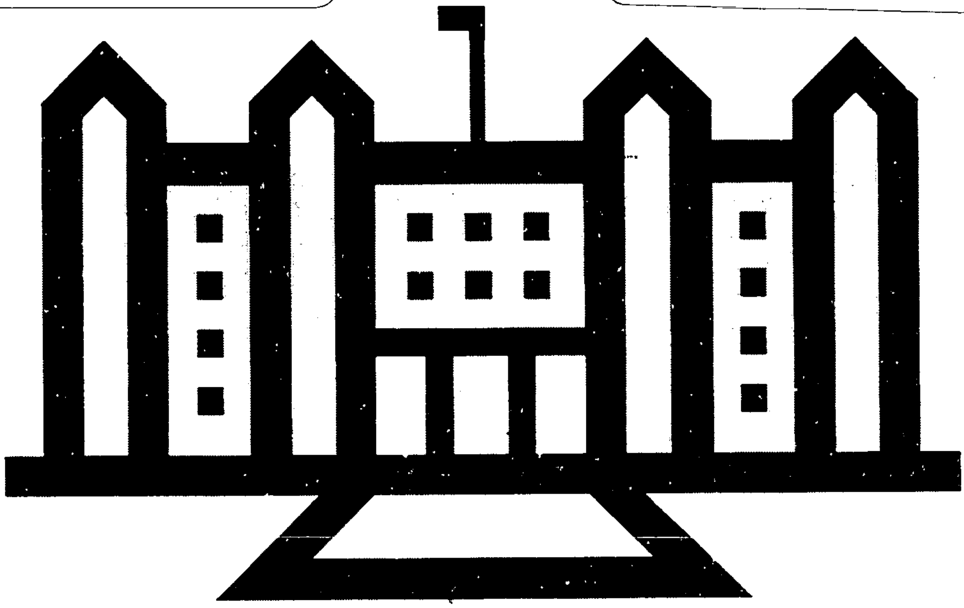
ABSTRACT

If educational finance includes the acts of raising, allocating, and using resources for educational purposes, it is difficult to think of a schooling activity that is not simultaneously a fiscal activity. When conceptualized along these lines, issues of school finance are as relevant to principals and classroom teachers as they are to state-level policymakers, superintendents, and business officials. This volume embraces this broad concept of educational finance and examines numerous instances of fiscal policy that have bearing on or take place within states, districts, and schools. The monograph contains 38 articles that collectively provide an overview of school finance in the United States and Canada. It serves two purposes. The first is to provide a report on recent school finance developments in the states and provinces. Thus, the monograph serves as an update of the comprehensive Public School Finance Programs of the United States and Canada. Second, it facilitates the exchange of ideas among policymakers and researchers. The authors are experts in their fields, each of whom offers a unique perspective on educational finance issues in their state or province. Because the views are those of the authors, the articles may provoke discussion and debate, and, hopefully, influence policymaking. (Author/RT)

The Political Economy of Education: The State of the States and Provinces 1999



Proceedings of the 1999 Annual Meeting of the
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Montreal, Quebec, April 1999

The Political Economy of Education: The State of the States and Provinces 1999

Edited By

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Proceedings of the 1999 Annual Meeting of the
American Educational Research Association
Fiscal Issues, Policy, and Educational Finance Special Interest Group
Montreal, Quebec, April 1999

Forward

If educational finance includes the acts of raising, allocating, and using resources for educational purposes, it is difficult to think of a schooling activity that is not simultaneously a fiscal activity. When conceptualized along these lines, issues of school finance are as relevant to principals and classroom teachers as they are to state-level policymakers, superintendents, and business officials. This volume embraces this broad concept of educational finance and examines numerous instances of fiscal policy that has bearing on or takes place within states, districts, and schools.

The volume is the eighth annual publication of the American Educational Research Association's Fiscal Issues, Policy, and Education Finance Special Interest Group. The monograph contains thirty-eight articles that collectively provide an overview of school finance in the United States and Canada. The monograph serves two purposes. The first is to provide a report on recent school finance developments in the states and provinces. To this end, the monograph serves as an annual update of the more comprehensive Public School Finance Programs of the United States and Canada. Secondly, the monograph facilitates the exchange of ideas among policymakers and researchers. The authors are experts in their field, each of whom offers a unique perspective on educational finance issues in their state or province. Because the views are those of the authors, the articles may provoke discussion and debate. There would be nothing so satisfying than if the monograph influenced policymaking.

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THE NATIONAL PERSPECTIVE

National Changes in Resources for Elementary-Secondary Education

William J. Fowler
National Center for Education Statistics

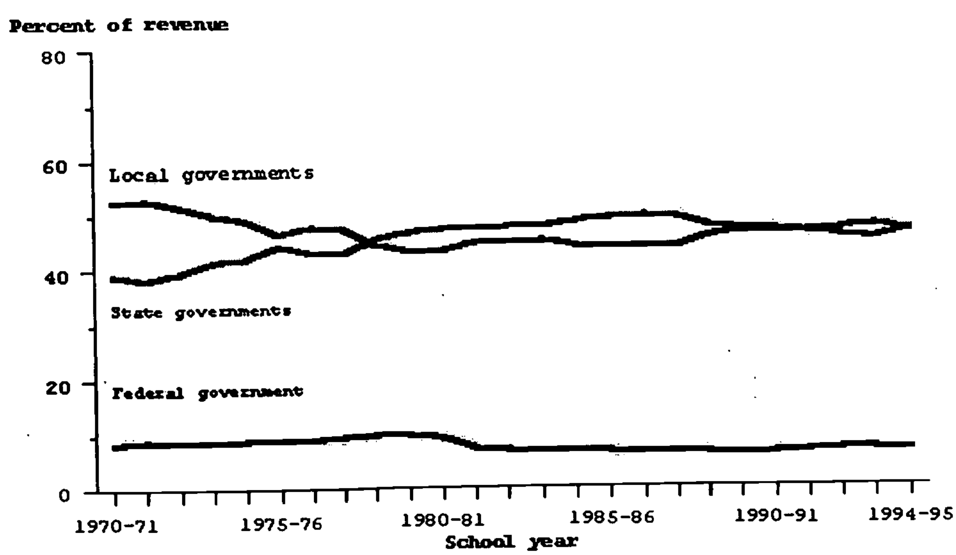
Introduction

This paper is intended for those who are not specialists in education finance, who may be unaware of the sea changes that have taken place in the financing of elementary education in the last quarter-century. Among the changes is a shift from local to state revenue for the average school district and an abrupt end to continuous revenue growth over a century. Some school districts have responded to less rapidly growing revenue by seeking private funds to supplement the funding of public education. Both changes portend significant changes in the future of public education.

The Shift from Local to State Funding

A quarter-century ago, in 1974, the average school district provided 50.1 percent of the revenue to operate the school district, with the state providing 41.4 percent, and the federal government providing 8.5 percent (see Figure 1). By 1979, the state contribution had grown to 45.6 percent, the federal to 9.8 percent, and the local had fallen to 44.6 percent. State contributions increased until 1987, when they reached 49.7 percent, and then have fallen back to the levels of 1979.

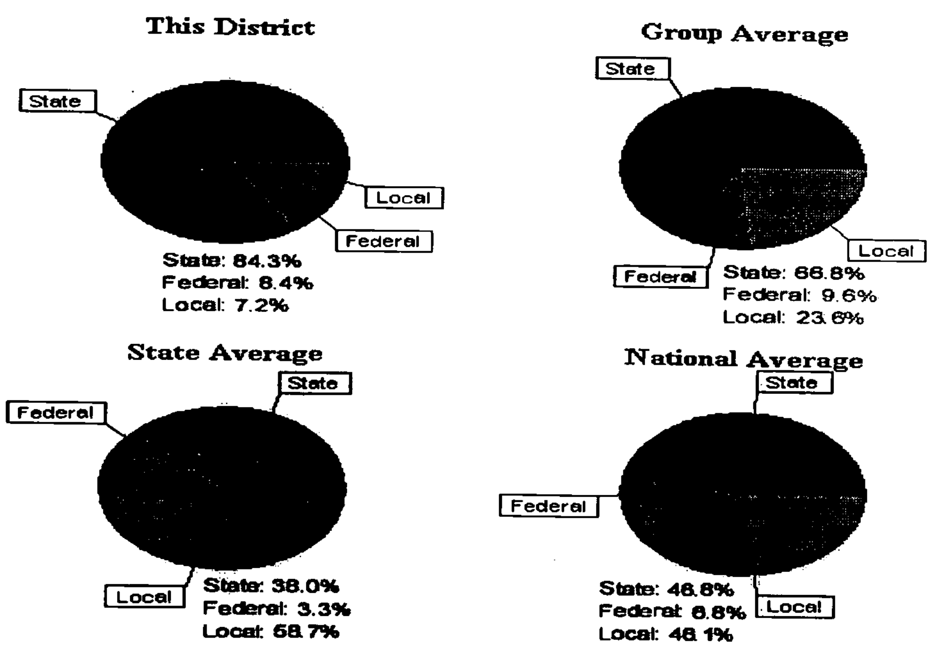
Figure 1. -Sources of revenue for public elementary and secondary schools: 1970-71 to 1994-95



SOURCE: U.S. Department of Education, National Center for Education Statistics, *Statistics of State School Systems; Revenues and Expenditures for Public Elementary and Secondary Education;* and Common Core of Data surveys.

Many have lauded this change, in part because school district revenues are less dependent upon local property wealth, and because most states attempt to provide more revenues for property-poor school districts to "equalize' their finances with property-wealthy school districts. However, an often forgotten virtue of local school district revenues being primarily derived from property taxes is that such taxes are very slow to decline in a recession. In contrast, state revenues are obtained from a mixture of state income taxes, sales taxes, and nuisance taxes (such as state lotteries). These revenues react very quickly to changes in a state's economic fortunes, and all decline in a recession. While the average school district in the nation has about half of its revenue coming from the state, very poor school districts have much higher state aid ratios. For example, in 1995, New Jersey state revenue averaged 38 percent for the average school district (see Figure 2). Camden City, New Jersey, a very property-poor school district, and a district declared a "special needs" school district by the N. J. Supreme Court, received 84.3 percent of its total revenue from the state in 1995.[1] Only 7.2 percent of Camden's revenue comes from local sources, less than the 8.4 percent from federal sources. Thus, if New Jersey made a 10 percent reduction in Camden's state aid as a result of a recession, the City would be hard-pressed to replace that reduction from local revenues.

Figure 2: State Revenue for CAMDEN CITY, NJ

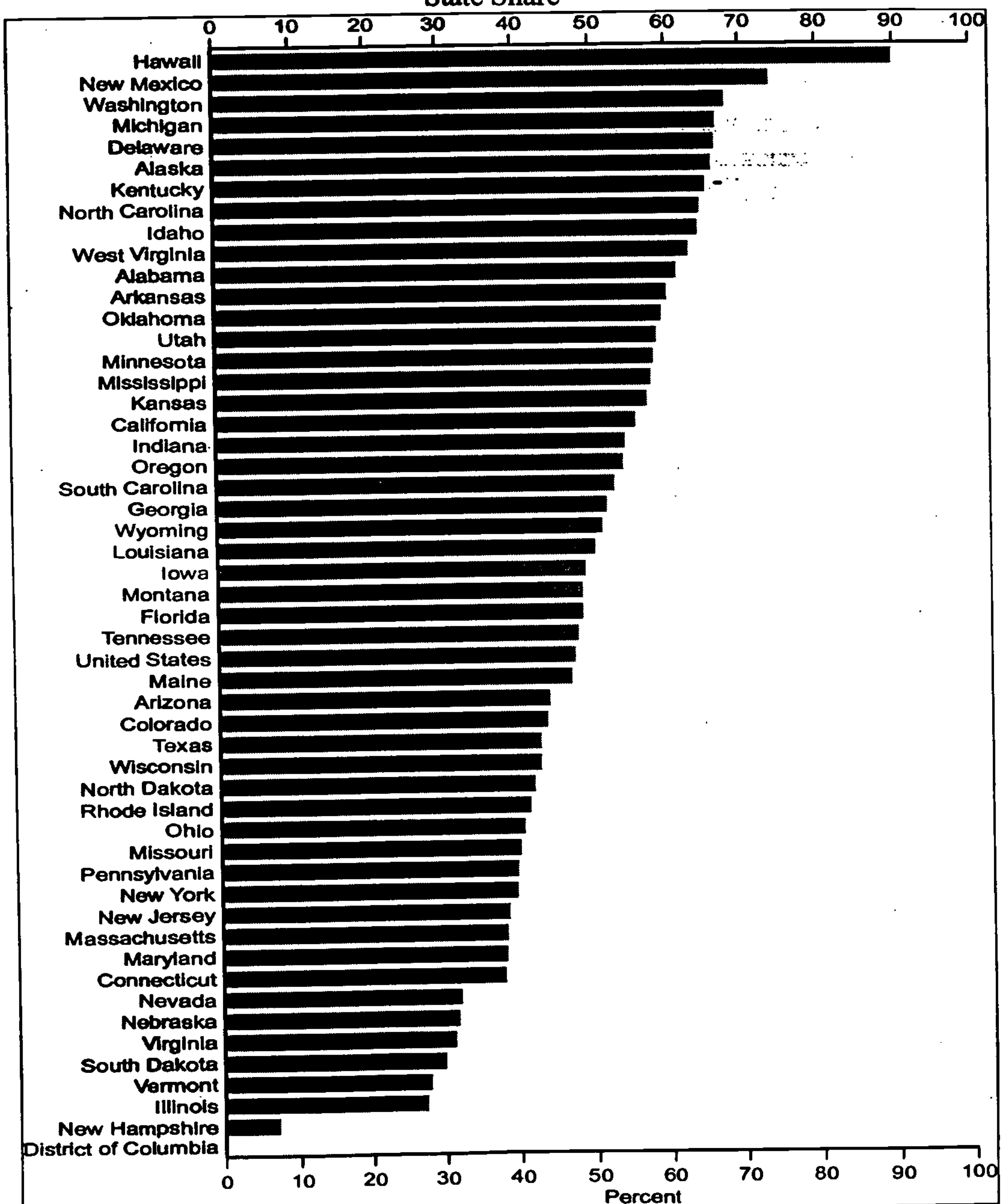


State Data: The Source for the State and National data is the 1992 NPEFS (National Public Education Fiscal Survey).

[1]Camden's 1980 median housing unit value was $31,094, while the state average was $169,480. Source: NCES CCD CD-ROM.

States vary widely in their support for school districts. New Hampshire traditionally provides the least state revenue to school districts, about 7.3 percent of total revenues, while New Mexico provides 74.4 (see Figure 3). The higher the percentage of state support, the more vulnerable school districts in that state are to recessions. About 22 states provide, to the average school district, more than 50 percent of the local school districts' revenue. School districts in these states would be adversely affected by recession.

Figure 3
State Share



Source: U.S. Department of Education, National Center for Education Statistics, Common Core of Data, 1995–96.

Funding Public Education with Private Funds

Some economists assert that 1990 marked a sudden end to a century-long trend of steady revenue growth for public school districts. In part, the growth rate seems to have slowed as a result of rising national enrollments, an even faster growing special education population, and the enactment of stringent tax and spending limits in some states. There is anecdotal evidence that school districts have responded by searching for funding from private sources. Everyone acknowledges that schools have long had bake sales and car washes to finance the band trip to the Rose Bowl. However, as much as 9 percent of some school districts' revenue is now composed of non-traditional revenues, which may be mildly disequalizing (that is, wealthy rather than poor school districts raise such revenue). For example, the Escondido County Union High School District in California established a foundation to support its interscholastic athletics program when Proposition 13 limited local property taxes. Foundations may fund individual teachers or teacher aides in schools, "Christmas" bonuses, laptop computers, instructional materials, arts and music programs, interscholastic athletics, and even capital projects (renovation of auditoriums, etc). Seldom are these revenues included in the annual financial report of school districts, since these foundations are considered separate from the school district financial entity.

School district revenue from private sources may also be susceptible to declines when a recession occurs, although this is by no means certain. In addition, it appears that those school districts which are property-poor may experience the greatest declines in state aid revenue, and it is those districts that have not been as successful as property-wealthy school districts in devising non-traditional revenue mechanisms (such as foundations) to help replace lost state revenue. For property-poor school districts, increasing reliance upon state aid revenue, and passiveness in establishing non-traditional revenue sources places them at great risk, whenever the next recession occurs.

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THE GOVERNORS VIEW

The Governors' Plans for Educations in the 21st Century

Linda Hertert
Sacramento, CA

America's current governors are members of a select group -- the last to lead their respective states this century and the first to do so in the next. This year's state-of-the-state addresses provided this select group with an historic opportunity to proudly recount past accomplishments, call for a new era of political cooperation and propose their goals for the coming century. It was an opportunity the governors seized with enthusiasm.

Recounting Accomplishments

Across the nation, governors nostalgically reflected on their state's contributions to what is often called "America's Century." In the south, newly-elected Governor Jeb Bush reminded his audience that 100 years earlier Florida was at the "untamed reaches of the American map" and "made more by selling the services of its convicts than it spent on salaries in the executive branch." Today, the state can claim, "from our shores, men have traveled to the mountains of the moon." In the far north, Alaska's Governor Tony Knowles, celebrating his state's 40th anniversary, congratulated fellow citizens for "creating a state from territory many dismissed as an icebox," "defending America's frontier in World War II," and "constructing America's largest private project -- an 800 mile pipeline."

In Oklahoma, Governor Frank Keating modestly declared his state "the 20th century success story," observing that "no other state went from frontier to the modern era so quickly, or with such energy." Oklahoma, according to Keating, had "produced more astronauts than any other state...a harvest of talent including winners of the Nobel prize, the Pulitzer Prize...a black Medal of Honor winner, Miss Americas and Native American artists and poets of incomparable skill." Not to be outdone, Governor Jim Geringer observed, "Wyoming is what America was -- and what America ought to be...the last best place to live...the state of high altitudes, low multitudes -- and great attitudes!"

A New Era of Political Cooperation

The almost magical effect of what Maine's Governor Angus King Jr. called an "historical tipping point" -- the congruence of the end of a century and of a millennium -- prompted many governors to call for a rededication to the ideals of public service. As Governor Tom Ridge of Pennsylvania put it,

> The change of centuries brings a sense of possibility and hopefulness -- a time when grand ideas somehow seem more in reach. I believe we must aspire in the new century to a new way of doing the people's business...I believe it is time to put an end to the politics of false choices -- of either/or -- and replace it with mutual goals. It is time to put an end to the politics of fear and blame -- and replace it with the relentless

pursuit of "what works." It is time to put an end to the politics of division -- us vs. them -- and replace it with public service that seeks out our common aspirations.

In a similar call for bipartisan cooperation, Arizona's Governor Jane Dee Hull said,

> we can disagree without being destructive. We can debate without being insulting. Improving our state and the lives of the people who live here isn't conservative, moderate or liberal. It is the job we were all elected to do.

Governor Bill Janklow of South Dakota put the point bluntly.

> Bipartisanship really isn't complaining. It's working together...There isn't a single one of you that ran for office saying elect me and I'll never talk to the Republicans...There isn't a single one of us Republicans that ever said elect me and I'll never deal with the Democrats.

Goals for the Coming Century

Success, however, requires more than bipartisan cooperation. As Governor Ed Schafer of North Dakota explained,

> changes in the new millennium will sneak up on us, sort of like that first time you look in the mirror and realize, no matter which angle you take, all your hair has turned gray...our success, perhaps our very survival as a state, depends on our ability to acknowledge changes and prepare for them. Preparation included a variety of gubernatorial proposals based on a cautiously optimistic economic view.

As the newly-elected governor of California, Gray Davis, explained,

> ...California's economy is fundamentally healthy. We are, however, not immune from national and international economic conditions. In fact the Department of Finance estimates that the growth of the nation's Gross Domestic Product will slow from a rate of 3.6 percent last year to 1.9 percent this year...To put it succinctly, this year we face budget pressures that require discretion, financial caution and crystal clear priorities.

Top Priority is Education

The governors agreed that the top priority continues to be education. Most governors consider it the key to economic success in the next century. As Governor King of Maine put it,

> ...the old saying that the rich get richer and the poor get poorer isn't so true anymore; what is true is that the educated -- throughout the world -- are getting richer and the uneducated are getting poorer. This equation is constant and irrefutable.

Maryland's Governor Parris Glendening agreed declaring that, "education must not be "a" priority, it must be "the" priority. Governor George Ryan echoed the consensus, declaring the state's number one priority "the education of our children, and the development of a trained, competitive workforce for Illinois in the 21st Century." Governor John Engler of Michigan put it more succinctly -- "the state with the best schools wins."

Reading is the Key

Winning for most governors begins with reading. As Governor Robert Taft of Ohio explained,

> if we want higher academic achievement for our students, reading is the key. If we want greater success in attracting the high-tech jobs of the future, reading is the key. And, if we want less crime on our streets and less poverty in our state, reading is the key.

For Governor Lincoln Almond of Rhode Island, "reading sets the foundation for academic success...for success in the workplace...for success in all of our endeavors." This foundation must be built in the earliest years of schooling. Utah's Governor Michael Leavitt explained the consequences of failure.

> Eighty percent of all children who haven't attained appropriate reading level by the end of third grade never catch up. That is a sobering statistic considering that reading is the key to success in every area of learning and reading failure is almost completely preventable.

The governors proposed numerous preventive measures. In California, Governor Davis wants $186 million for reading programs, including "Intensive Reading Instruction Academies" and a "Governor's Reading Awards Program" which will provide competitive cash grants to the top 400 schools whose students read the most books designated in the California Reading Lists. Governor Hull intends to spend $20 million dollars in Arizona to provide smaller classes for K-3 students who need additional help with reading. Idaho's Governor Dirk Kempthorne allocated $5.5 million for a comprehensive reading program for grades 1-3. In Rhode Island, Governor Almond asked for $500,000 to improve professional development in reading.

South Carolina's Governor Jim Hodges proposed the "Governor's Institute of Reading" which will gather the leading reading experts to promote reading through grants to local schools and to provide professional development for reading teachers. Governor Frank L. O'Bannon asked for a comprehensive reading assessment in Indiana to find and assist 2nd graders who are falling behind. In Ohio, Governor Taft called for 20,000 volunteers to tutor K-4th graders in reading.

Building Responsibility and Accountability

Reading programs were the most popular education initiative discussed by the governors. These programs were usually part of a comprehensive plan to prepare students for the coming century.

Proposals to build responsibility and accountability into the public education system also were included in the governors' plans. Governor Keating of Oklahoma explained the importance of such measures.

> Right now we have to remediate, depending on whose statistics you read, anywhere between 30% and 40% of our youngsters that go to college. That is unacceptable. We are investing in common education. We should demand that there be results.

California's Governor Davis explained the extent of his proposal saying,

> No one gets a free ride. Students will be tested. Teachers will be reviewed. Principals will be held to account. And parents will be urged to assume greater responsibility.

Merit promotions and graduation exams were the most common approaches for holding students accountable. Following President Clinton's lead, governors in Florida, Michigan, North Carolina, Oklahoma and Texas called for an end to social promotion. The governors also wanted high school diplomas awarded on the basis of merit, making a diploma " a meaningful guarantee of competence, not just a verification of attendance," says Utah Governor Leavitt. Under his plan, Utah students would need to demonstrate competence in reading, writing, math and technology. In California, Governor Davis will focus on mastery in math and communication skills.

Demonstrations of competency were not limited to students. Many governors also would require potential teachers to demonstrate their teaching skills and subject-matter expertise as a condition of certification. Governors in Delaware, Florida, Michigan, Massachusetts, Rhode Island, Vermont, and Washington proposed such evaluations. Governor Christine Todd Whitman in New Jersey also would require aspiring teachers have at least a B average; the state currently requires a C+.

In Wisconsin, Governor Tommy G. Thompson proposed a graduated licensing system for teachers designed to ensure competency and continued professional development. In his plan, an "initial teaching license" is awarded based on the results of a national exam in the aspiring teacher's subject area, and Wisconsin's academic standards and technology. Those holding an initial license can earn a "professional license" after three successful years in the classroom, fulfilling a professional development plan and undergoing a peer review. A "master license," the highest certification, is reserved for teachers who earn National Board certification.

In Delaware, Governor Thomas Carper would base continuing certification, in part, on the performance of a teacher's students. Utah's Governor Leavitt, on the other hand, wants legislation to make it easier to dismiss low-performing teachers, while New Hampshire's Governor Jeanne Shaheen needs changes in teacher tenure laws to more easily remove ineffective teachers. Governor George Pataki of New York would extend these proposals to include administrators, asking legislators to end principal tenure. Other governors also included school and district administrators in their accountability initiatives, usually by proposing to make the performance of their students subject to public review.

In Hawaii, Governor Benjamin J. Cayetano wants to start the process of public review by creating a system of performance measures. Governor Bill Owens in Colorado also wants a "school report card," and Governor O'Bannon asked to expand Indiana's existing report to include more performance data. In Wisconsin, Governor Thompson wants a report card posted on the Department of Public Instruction's Web site, and he would give local school boards the power to close failing schools. Governor Ridge in Pennsylvania also wants the authority to declare academic bankruptcy in school districts that "steadfastly fail to educate its children." In Michigan, Governor Engler wants to give that authority to city mayors. Governors also considered parents in their plans to improve public education. Governor Hodges of South Carolina proposed a "Compact with Our Children" -- a yearly pledge made by parents to set high standards as "partners in our children's education." In California, Governor Davis urged school districts to require parents to sign a contract promising "to read to their children, to assist on homework and to engage the process of learning."

Providing Flexibility

The governors' plans for improving education did not end with declaring students, teachers and parents responsible and accountable for results. As Washington's Governor Gary F. Locke explained,

> if our schools are to improve, we need to free them from the control of Olympia and even their local central administration and give them the flexibility and tools to succeed.

The governors proposed a variety of methods to provide "the flexibility and tools to succeed." Governor Owens in Colorado suggested giving schools, even entire districts, waivers from "burdensome and unnecessary state laws." In Pennsylvania, Governor Ridge introduced his "School District Empowerment Act" which is designed to "cast aside state control and mandates" and to "free entire school districts from the tentacles of state control." Arkansas' Governor Michael D. Huckabee wants to repeal "restricting legislation" that keeps schools occupied with the details of legislative mandates rather than with the needs of students.

Governor Cayetano of Hawaii suggested creating "Schools for the New Century." This pilot program would give select schools the freedom to negotiate their own collective bargaining contracts or eliminate collective bargaining all together; freedom from the constraints of the state's procurement code; freedom to engage in lump sum budgeting without interference; and freedom to select their principals and faculty without constraint; and administered by a principal answerable to a school committee comprised of faculty, parents and community leaders.

One of the more innovative proposals was Governor Locke's "Opportunity School Districts." In these jurisdictions, Washington school districts will choose to send, at a minimum, 75% of their funding directly to their schools, giving principals, teachers and parents full authority to allocate these funds. Opportunity School Districts would be exempt from state regulations, except those related to education reform, civil rights, health and safety, and collective bargaining.

These initiatives were not limited to schools and districts. As Vermont's Governor Howard Dean explained,

> if public schools are to survive and flourish, they must offer families more flexibility. They must reach out to all parents and students, home schoolers and others who feel that public education has not yet met their needs.

He asked for legislation authorizing public school choice in Vermont, while Michigan's Governor Engler hopes to expand his state's existing program statewide. In Mississippi, Governor Kirk Fordice wants parental choice for students in the state's "lowest-rated" public schools, and Florida's Governor Bush wants to do the same.

Vouchers were also proposed as a way of giving families flexibility and choice. Governor W. Bush of Texas suggested a pilot program, as did New Mexico's Governor Gary Johnson. Governor James B. Hunt Jr., however, made it clear that this is not an option in North Carolina saying, "if you want to see me use that veto pen, send me a voucher bill."

Charter school proposals were more popular. Governor Keating of Oklahoma wants a charter school law, as does Governor Huckabee of Arkansas and New Mexico's Governor Johnson. Governors Argeo Paul Cellucci of Massachusetts, Kenny Guinn of Nevada and Engler of Michigan want to eliminate the existing cap on the number of charter schools allowed to operate in their respective states.

Providing Resources and Support

The governors offered additional resources and support to help schools produce the expected results. Governor Ryan of Illinois intends to hire 10,000 new teachers over the next four years at a cost of $60 million, Virginia's Governor James S. Gillmore III is committed to hiring 4,000, and Governor Locke wants 1,000 new elementary teachers in Washington.

Governor Tom Vilsack of Iowa also wants to reduce class size, and Governor Thompson of Wisconsin is proposing $50 million for the same purpose. Governor Cellucci of Massachusetts has earmarked $20 million. In South Carolina, Governor Hodges intends to cut class size to a 17-to-1 ratio, the first step to his goal of 15-to-1 in K-3. California's Governor Davis wants to use federal class-size reduction funds to lower student-teacher ratios in high school math and English classes. In Maryland, Governor Glendening intends to reduce the size of 1st and 2nd grade reading classes and 7th grade math classes by hiring an additional 1,100 teachers certified in these subject areas.

The governors also offered resources to improve the learning environment. As Rhode Island's Governor Almond stated,

> it's essential for our students to acquire knowledge in an atmosphere that's conducive to learning. That means we must invest in bricks and mortar.

He suggested an additional $2.8 million for renovation and construction of new classrooms. In Maryland, Governor Glendening plans to spend $1 billion over the next four years to build or modernize 7,500 classrooms. Governor Roy Barnes in Georgia recommended spending $12.5 million to upgrade equipment in the state's technical schools and another $6.3 billion to open 13 new facilities and renovate existing buildings.

Other governors focused on discipline as a means of improving schools. Pataki of New York explained the importance of these initiatives.

> If a teacher spends a half hour disciplining one bad student, 20 good students have just been denied a half hour of learning. That is wrong, and we must not stand for it. Let's help the students who want to learn by giving teachers the power to remove the ones who refuse to learn.

Governor Carper of Delaware proposed spending an additional 50% on discipline programs, while Governor Ryan of Illinois asked for support for his "Safe 2 Learn" program. Utah's Governor Leavitt wants to create alternative schools with "highly supervised, structured environments designed specifically for students who refuse to keep the rules of society and are not yet ready to learn with the mainstream."

The governors also offered support for teachers and administrators in their efforts to help prepare students for the 21st century. In Massachusetts, Governor Cellucci proposed four new leadership academies that will standardize professional development and provide teacher training. Governor Gillmore proposed five additional "Best Practice Centers" for Virginia's teachers. In Arizona, Governor Hull committed $2 million to establish the "Center for K-12 Improvement" at Northern Arizona University to train and re-tool teachers in best practices.

Florida's Governor Bush proposed an additional $6.4 million to expand professional development programs that train "teachers to use student performance data in making instructional decisions, understand comprehensive tests and Sunshine State Standards, and help students make up for past learning deficits." Governor Thompson allocated $1.5 million for the "Wisconsin Academy Staff Development" initiative. In California, Governor Davis proposed spending more than $50 million to establish reading development institutes for teachers and a "Principal Leadership Academy." Governor Almond in Rhode Island also proposed a leadership academy for superintendents, administrators and principals.

Some other interesting initiatives that were suggested would provide additional resources to students. For example, Governor Hodges in South Carolina allocated $25 million for laptop computers and SAT review software for students to use at home while preparing for their college entrance exams. Governor Engler wants to ensure that all students have access to Advanced Placement courses via "Michigan's Virtual University" and that those children who do not attend a traditional public school have access to extracurricular activities in their district of residence. Governor Thompson of Wisconsin proposed a $350,000 grant program to provide foreign language instruction to elementary students via TEACH (the state's Internet network).

Rewards and Incentives

The governors offered a number of rewards and incentives to motivate students, teachers, and schools. The most popular student incentive was some form of college scholarship program, usually modeled after Georgia's successful HOPE scholarship. For example, Governor Locke's proposed "Washington's Promise Scholarship" would provide money to the top 15% of every high school graduating class, starting with this year's senior class.

When the state's new 10th grade test is in place, these two-year scholarships will be awarded to all high school students who pass the exam. The scholarships can be used at any public or private institution in the state, and they will be available to students whose families make up to 135% of median family income -- for a family of four, that's $69,000; for a family of five, it's $82,000.

Governor Guinn's "Millennium Scholarship" provides Nevada high school graduates, with at least a B average, a scholarship of up to $2,500 annually for four years at a state university or $1,250 annually for two years at a community college. The "New Century Scholarship" proposed by Governor Leavitt offers any Utah student, who achieves a two-year associate degree at the same time they complete their high school requirements, a scholarship for two more years at any four-year state college or university. This is an award worth approximately $15,000. Governor Huckabee of Arkansas wants to expand the "Academic Challenge Scholarship" program by raising the maximum family income limit to $70,000. The scholarship is a $10,000 college grant for students who "make the grades and test scores, and continue to be drug free."

In an effort to make technology education a priority in Pennsylvania, Governor Ridge introduced the "SciTech Scholars Program" which provides up to $9,000 for Pennsylvania students studying technology at a state college or university. In return, the student agrees to work in Pennsylvania for up to three years after graduation. In Michigan, high school graduates who master reading, writing, math and science will receive the governor's proposed "Michigan Merit Award" worth $2,500. In addition, the governor proposed awarding $500 to all students who pass their 7th and 8th grade MEAP tests in reading, writing, math and science -- every student in the state is eligible whether attending public school, private school or home school.

Another popular initiative was intended to encourage teachers to seek national board certification. Governor Bill Graves in Kansas offered scholarships for 65 teachers seeking national certification, while Governor Almond proposed that Rhode Island pay half the application cost for all applicants. Governor Schafer suggested North Dakota pay for 60 teachers to participate and award $5,000 salary increases to the successful candidates. Vermont's Governor Dean wants to guarantee a $1,000 per year stipend to every teacher awarded national certification, and Governor Thompson in Wisconsin suggested a yearly bonus of $2,500 per year for these teachers.

The governors also structured a number of rewards programs for schools. In Washington, for example, Governor Locke proposed cash awards for elementary and middle schools where test scores climb three years in a row. In Florida, Governor Bush targeting an increased share of lottery funds-- a total of $15 million-to reward high performing and improving schools. In California, schools showing significant improvement over the previous year would receive a share of the $150 million proposed under the "Governor's Performance Awards" program.

Higher Education

Many governors included proposals to strength the quality of higher education in their states. The importance of continuing education was emphasized in a number of gubernatorial addresses. For example, Governor Locke of Washington stated that, "going to college isn't just a symbol of honor or distinction any more -- it's a necessity." The governor proposed the creation the "Washington Online College" to help students enroll in distance education courses for credit over the Internet. In New Jersey, Governor Whitman's "New Jersey Virtual University" would put distance learning only a keyboard away.

To make higher education more affordable, Governor Gilmore of Virginia asked for a 20% across the board tuition cut at state universities. Governor Davis in California allocated $30 million to maintain the state's current student fee reduction program for another year. He also proposed spending $5 million to increase the number of "Cal Grants," a financial aid program for needy students.

Higher education is considered a key to economic growth by a number of governors. As Maine's Governor King explained,

> the five richest states in America are the five with the most college graduates. Lower educational attainment equals lower incomes; it's as simple as that.
> Maine is one of the few states without a community college system. It will create a new two-year system, with the help of the state university and technical colleges, that

will offer anyone in the state the opportunity to obtain an associate degree for as little as $2,500 at a site no more than 25 miles from their home. These degrees will be fully transferable to the University of Maine.

As the century and the millennium draw to a close, this year's governors emphasized the importance of education to the quality of life and economic prosperity of their constituents. They proposed initiatives requiring accountability and responsibility from all engaged in preparing today's children for tomorrow's world; offered resources, rewards and incentives to encourage the attainment of higher educational goals; and emphasized the importance of lifelong learning with new programs and resources targeted for higher education. Standing at the threshold of a new millennium, the governors seemed more aware than ever this year that as Governor Pataki of New York said, "children are the living messages we send to a time we will not see."

LEGISLATIVE ACTIVITY

The State of State School Finance Legislation: Overview and Analysis

Faith E. Crampton
National Education Association

Introduction

Funding of public elementary and secondary education represents one of the most important legislative functions of states. For over a century, state legislation has been a primary force in shaping public school finance. Today, funding schools to achieve a panoply of sometimes competing policy goals still challenges state lawmakers. This chapter opens with an overview of 1998 school finance legislation and a comparative analysis of legislative activity from 1994 through 1998. The overview is followed by two sections: the first focuses on legislation that reflects trends established over the past five years, while the second which explores emergent trends. The chapter closes with conclusions and policy implications.

An Overview of 1998 School Finance Legislation and A Comparative Analysis of the 1994-1998 Legislative Sessions

The 1998 legislative session closed with 394 bills passed and signed into law.[1] The average number of bills passed per state was nine although the number ranged from a high of 44 bills to a low of two. (See Table 1.) Seven states had no legislative session in 1998. Legislation covered the spectrum of school finance issues from reconfiguration of state aid, the single largest source of school funding, to financing of concerns as varied as educational technology and school safety. While some legislative bills simply tweaked the current funding system, others represented major shifts in funding priorities and education policy directions.

For analysis, bills were divided into sixteen categories: 1) State Aid to Elementary and Secondary Education; 2) Study Committees of State Education Funding Systems; 3) Lottery and Gaming Funds Used for Education; 4) School Infrastructure Funding; 5) School Safety Funding; 6) Special Education Funding; 7) Technology Funding; 8) Transportation Funding; 9) Charter School Funding; 10) Tax Bases and Taxation for Education Funding; 11) Special Purpose Education Program Funding; 12) Budgeting and Fiscal Management; 13) Cross-District Student Enrollment Funding; 14) Supplemental Revenues for School Districts; 15) School Employee Compensation and Personnel Funding Issues; and 16) Other Education Funding Legislation. (Table 2 lists the number of bills by category followed by the number of states in which that category of legislation was passed.)

[1]Source: Lexis-Nexis searches by the author (October 1998, January 1999).

The 1998 legislative session saw a decline in the total number of school finance bills passed, after three years of substantial increases. In the 1997 session, 441 bills were passed; in the 1996 session, 260; in the 1995 session, 212; and, in the 1994 session, 127. In 1998, four categories of legislation tallied an increase in the number of bills passed: School safety funding; special education funding; charter school funding; and tax bases and taxation for education. Transportation funding held even with 17 bills. The remaining categories of legislation experienced declines, although in many cases they were slight.

Table 1
1998 State School Finance Legislation Totals by State
(Number of bills passed)

Alabama	13	Montana (no session)	0
Alaska	5	Nebraska	10
Arizona	18	Nevada (no session)	0
Arkansas (no session)	0	New Hampshire	24
California	44	New Jersey	2
Colorado	6	New Mexico	3
Connecticut	9	New York	9
Delaware	3	North Carolina	9
Florida	5	North Dakota (no session)	0
Georgia	26	Ohio	6
Hawaii	8	Oklahoma	6
Idaho	10	Oregon (no session)	0
Illinois	15	Pennsylvania	4
Indiana	2	Rhode Island	4
Iowa	9	South Carolina	3
Kansas	5	South Dakota	15
Kentucky	9	Tennessee	10
Louisiana	8	Texas (no session)	0
Maine	13	Utah	11
Maryland	9	Vermont	2
Massachusetts (no session)	0	Virginia	11
Michigan	7	Washington	4
Minnesota	2	West Virginia	8
Mississippi	3	Wisconsin	10
Missouri	10	Wyoming	4
		Total Bills	394

Established Trends in State School Finance Legislation

Over the past five years, the awareness of state legislators with regard to several critical areas of education funding has been heightened. At the national level, a number of reports as well as federal legislation have raised state legislators' consciousness with regard to the financing of educational technology, school infrastructure, and charter school funding. In addition, state lawmakers look to legislative trends in neighboring states; such may be the case in recent years with regard to funding measures for student achievement.

Educational Technology Funding. During the 1998 legislative session, 14 states passed 20 educational technology funding measures. Over the last five years, the number of bills passed per session has grown substantially, and the range of the legislation has expanded from equipment purchases to include areas like student competency in technology and professional development for educators to make effective use of technology in the classroom.

Table 2
1998 State School Finance Legislation Totals by Category

Category of Legislation	Number of Bills	Number of States
State Aid to Elementary and Secondary Education	50	24
Study Committees of State Education Funding Systems	4	3
Lottery and Gaming Funds Used for Education	3	3
School infrastructure Funding	61	30
School Safety Funding	8	8
Special Education Funding	32	17
Technology Funding	20	14
Transportation Funding	17	13
Charter School Funding	21	13
Tax Bases and Taxation for Education Funding	85	31
Special Purpose Education Program Funding	87	35
Budgeting and Fiscal Management	30	18
Cross-District Student Enrollment Funding	9	9
Supplemental Revenues for School Districts	8	7
School Employee Compensation and Personnel Issues	43	30
Other Education Funding Legislation	33	18

School Infrastructure Funding. In recent legislative sessions, the number of school infrastructure funding bills has increased dramatically. Aging school facilities, increasing enrollments, and, in some cases, litigation, have placed pressure on legislatures to pass funding measures. During the 1998 session alone, 61 bills were passed in 30 states. Many of these bills have tax implications and hence also fall under the legislative category of "Tax Bases and Taxation for Education."

Charter School Funding. Over the past 5 years, charter school funding legislation has increased sevenfold, from 3 bills in 1994 to 21 in 1998. The 1998 session continued a trend regarding the maturation of charter school funding legislation, where legislatures that had previously enacted laws, permitting the establishment and funding of charter schools, revisited the legislation to fine tune it. Of particular concern were issues of school employee working conditions and charter school accountability around program and fiscal issues.

Student Achievement Funding. A record number of 14 states passed funding measures designed to improve student achievement, representing twice the number of states in 1997 and signifying an ongoing, intensifying interest by legislatures not only in raising student achievement across the board but also in assisting all students to be academically successful. These measures represented a range of mechanisms, which can be divided into seven categories: 1) Extended, summer, and after-school programs; 2) Class size reduction; 3) Expansion of post-secondary education options; 4) Reading instruction in the early grades; 5) Academic success of all learners; 6) State standards; and 7) Education beyond the basics.

Emergent Trends in State School Finance Legislation

Teacher quality and early childhood education represent education funding trends in the making, or emergent trends. With regard to teacher quality, a number of professional development measures were passed during the 1998 session, with a cluster in California, often viewed as a bellwether state. For the second year in a row, a substantial number of funding measures were enacted in early childhood education, indicating a sustained interest.

California passed six pieces of legislation tied to teacher professional development. The first established the "National Board for Professional Teaching Standards Certification Incentive Program," to provide a one-time award of $10,000 to teachers who achieve national board certification. (Assembly Bill 858) A second piece of legislation funded the "Education Technology Staff Development Program." (Assembly Bill 1339) Three pieces of legislation targeted the funding of teacher professional development in mathematics. Assembly Bill 1331 provides a program of grants to school districts and county superintendents for inservice training of mathematics teachers, grades 4-12. Another established the "California Mathematics Teaching Challenge" to increase the number of teachers certificated to teach mathematics, a shortage area in many states. (Assembly Bill 496) The third enacted the "Standards-Based Mathematics Staff Development Act of 1998," a grant program to cover the cost of additional coursework for mathematics teachers. (Assembly Bill 2528) Senate Bill 1692 funds the "California Specialized Training Institute," a pilot program to facilitate teacher certification, recertification, and renewal through distance education.

Conclusions and Policy Implications

Even though the total number of school finance bills passed in the 1998 session declined, legislatures' interest in the funding of elementary and secondary education remained high, with nearly 400 pieces of legislation signed into law. In addition to an overview of the 1998 session, this chapter offered an analysis of the past five years of school finance legislation, describing established and emergent trends. Established trends exist in the funding areas of educational technology, school infrastructure, charter schools, and student achievement. Emergent trends can be seen in the areas of teacher quality and early childhood education. Without exception, all of these funding areas have been the focus of national and federal reports and research over recent years. These trends reveal that in addition to the basic funding of the states' public school systems, legislatures are willing to tackle a range of educational funding policy areas, many of which represent ongoing challenges and will require substantial investments of resources.

ALABAMA

The Governor's Race and Alabama School Finance: The New Governor's Initiative for Alabama School Finance

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Introduction

In Alabama, as with most states, the public (government run) schools are caught in many of the reoccurring financial dilemmas, some of which in Alabama are set out in the 1993 court action of Judge Gene Reese (referred to as ACE v. Hunt).[1] Education and specifically, school funding, continues to be plagued by follow up suits and legal machinations. What is needed is a new approach.

The form of government at the national level is defined in scope, content, and authority by the United States Constitution in which the people grant the privilege for the national government to exist and govern. This grant by the people is limited by the 10th Amendment which clearly sets out that 'those powers not specifically granted to the federal government, nor prohibited by the (United States) Constitution, are reserved to the several states and/or the people respectively. As neither education nor schooling is mentioned in the United States Constitution, it is clear that any authority, coupled with appropriate responsibility for governmental school operations lies with the several states, should the people of each of the states so deem to have it. The people of Alabama so deemed it in the1850's and began a system of publicly funded schools. This will of the people of Alabama to have publicly funded schools continues to today. Such systems are not without issues which arise over time. The nature and role of these publicly funded public (government run) schools has changed over time.

Certainly, the realm of politics in Alabama has not escaped issues regarding both the operations of the schools and their funding, nor have school operations and their funding escaped the realm of politics in Alabama. The 1998 Alabama governor's race had as a theme the schooling operations in Alabama, and in very specific terms, issues of school finance.

In the suit referenced earlier, one of the principals was the then governor, Governor Guy Hunt. Governor Hunt was unique for the past 100 years in that he was the first Republican to be elected governor in over 100 years in Alabama. This point is made to show

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[1] Alabama Coalition for Equity, INC. (ACE) v Guy Hunt in his official capacity as Governor of the State of Alabama as President of the State Board of Education, et al. and Mary Harper, suing as next friend of Deion Harper and Kerry Phillips, minors, et al. v. Guy Hunt in his official capacity as Governor of the State of Alabama as President of the State Board of Education, et al. This is subsequently referred to as ACE v. Hunt.

that the long-standing modus operandi in Alabama was for the governor to be a Democrat in party affiliation.

In the 1994 gubernatorial election, the issues raised in the ACE v. Hunt court decision played a prominent role. These issues included both operational issues of 'leveling the school services' coupled with issues of what constituted an appropriate level of "equitable" funding, and how that "equitable funding" might be accomplished—including issues of revenues for education. Campaigning as a Democrat, Fob James, Jr. became the governor, running on a commitment to not raise taxes, unless it was absolutely necessary. He pledged to make the educational system more cost effective, and would search to find the necessary moneys within the present k-higher education system.

In the 1998 gubernatorial primaries, the then incumbent governor, Governor Fob James, jr. changed his party affiliation from Democrat to Republican. Based on the history of the past 100 years this might suggest a long shot. Fob James. Jr. won the primary race. When the gubernatorial race went to the next level, the race between the candidates of the major parties, the issue of obtaining funding for 'educational enhancements' became a major emphasis. The Democratic party nominee, Siegelman, used this as a campaign on this issue, proposing a state lottery system to provide funds for these 'educational enhancements'.

Whether it was this emphasis for a state lottery to provide some measure of additional schooling endeavors, or the 100 year history, is uncertain. What is certain is Siegelman won the governor's chair, and assumed the role at the beginning of the 1999 year. It is not the intent here to either make the determination as to the 'whys' of the outcome of the governor's race in Alabama, nor to suggest that these were the only decisive issues.

Suffice it to note the issue of additional schooling opportunities coupled with a proposed additional alternative revenue source (the lottery) is the present situation in Alabama. To allow for such a revenue source as a state lottery, requires the vote of the people of Alabama. However, before the condition of the approval by the people, the matter first has to go through the legislative process. To that end a bill, was entered into the House of Representatives of the State of Alabama. This bill has been passed and placed before the people.

The following discussion is set forth to provide a framework so that the present legislation in Alabama for a state lottery 'for education' can be more effectively considered. There are a number of possible key issues and concerns that are usually put forth when a lottery is proposed within a state. Some of these include, but are not limited to the following:

- The lottery generated revenue is to be for education (schooling), yet the funds are not specifically allocated as such, nor are they even ear-marked as such;
- The lottery generated revenue is not a stable source of revenue, and thus, reliance on it can cause extreme fluctuations in the schooling services that are provided over a year, and year to year;

- While prior to the lottery the schools were in large part funded by public tax revenues allocated by the legislature and, usually, a local tax component, there is not a need for these, as the schools have the lottery;
- Even if the legislature continues to allocate public tax revenues for the schools and there is a local tax component, there is a sentiment that these allocations do not need to be adjusted upward, as the schools now have the lottery;
- What is an equitable distribution to the schools of the lottery revenues—should it be on a per pupil basis, or should it be considered as a 'local incentive sales tax' and distributed back proportionately, according to where the revenue was generated;
- As the lottery 'catches on' the revenues generated will rise and the schools will be over-funded. Therefore, there needs to be ways to adjust the distribution of the public tax revenues by the legislature downward;
- As the lottery 'runs its course' there will be great revenues initially and the schools will come to depend on these revenues. Then as the lottery becomes 'common', the revenues will decrease and the schools will be left with shortfalls;
- The lottery is really a regressive form of taxation (raising public revenues) as the people who play it most have the least money and hence, a larger proportion of their income will be 'spent' on the lottery;
- The lottery is essentially an evil practice, as one relies on 'luck' or 'lucky numbers' and these are not real; and
- The lottery funds are not public tax funds, and thus, can be used for public (government run) as well as private (non-government run) schools.

These are but a few of the issues and concerns advanced when the matter of whether to have a state lottery 'for education' comes up. The consideration of these issues in regard to the lottery bill of the Alabama legislature, House Bill 73 (referred to as HB73) follows.

The first issue is that the funds be categorically allocated to schooling. Part II, §c §1 addresses the allocation and distribution of the revenues generated by the proposed lottery. It should be noted that Part II, §c §2 allows for excess revenues to be allocated and paid to the Education Trust Fund whose use 'shall be strictly limited to educational purposes'. One might raise the issue of how will it be determined that there are excess funds, and might much of the lottery revenues be classified as excess the amount for section 1 of this provision?

The second issue is the instability of the lottery revenues, season to season, and year to year. This can only be resolved empirically, but the results of other states might suggest some answers. It seems that what is deemed excess revenues in Part II §c §2 might be better classified as funds to become an initiating base for the proposed programs of Part II §c §1.

The third issue is that of eventual supplanting of the present public tax revenue allocations by the legislature. While safeguards may be found in the present bill as the lottery revenues are to be used for specific programs, might it be that these programs should become a part of the regular public tax revenue allocations by the legislature? Also, is it possible that these revenues may, through 'expansionist terminology' become a supplanting of the present revenues in some instances, where there is no real recourse?

The fourth issue is the concern that as inflation occurs and the legislative allocations are usually increased, such will not be the case (at least, at the necessary level) as the schools have the lottery revenues to use. Again, safeguards in the bill will not necessarily negate such (un)conscious legislative actions.

The fifth issue raised is what constitutes the equitable distribution of these new-found revenues. The arguments might be on a programmatic basis, as is found in Part II §c §1, but in order to partake of these programmatic dispersions, might there be a disparity of opportunities due to the variations in the schools and local communities. That is, might not everyone 'meet the mark' or even know how to obtain the programmatic funding.

The sixth and seventh issues raised were the concern for the instability of lottery revenues. The history of other states suggests that lottery revenues are not a stable source of revenue. Thus, what will happen to lottery funded programs in times of shortfalls?

The eighth issue raised is the matter that lotteries as a revenue source are considered by some as regressive. This is due to the proportion of disposable income one spends on lottery tickets is greater for those with lesser incomes.

The ninth issue is that of the lottery is essentially an evil or 'bad' thing. Many speculate that because many people view the lottery as bad or evil, the best argument for the passage of a lottery is to somehow tie it to education (as per this bill). Thus, when someone opposes the lottery passage you can raise the question to those who oppose it as to 'whether they are for education', and if they are why do they oppose this needed 'revenue source'?

The tenth issue is a mixed issue. Since these revenues are voluntary in nature, there are less restrictions on their use. Therefore, these revenues can be used to support students who are in programs in 'private' (non-government run) schools as well as 'public' (government run) schools. Further, it is argued that the variety of programs for students that can be supported in is much greater.

Certainly, this list is not exhaustive, but it shows some of the dimensions of such a revenue generating concept as a state lottery. While the lottery as a revenue alternative is seen to have played a major role in Governor Siegelman getting elected, the question is whether it will play a major role in the schooling industry of Alabama. For instance, will (supplemental) educational programs, services, and capital outlay materials and facilities be introduced with lottery revenues and then be picked up as regular programs, funded by public tax revenues by the legislature. Or, will there be lottery funded 'alternative' programs to pick up the 'slack' (unmet schooling needs) which are the result of a gradual diminishing of the commitment of public tax revenues by the legislature? Clearly, it will take the passage of the lottery and the passage of time to know the answers to these and other questions that will arise. The issue is in the voting hand of the Alabama public for Alabama.

ALBERTA

Funding Education in Alberta

Frank Peters
University of Alberta

There are approximately 575,000 students in Alberta schools: public schools (413,000 students), separate schools (121,000 students), private schools (23,000 students), federal schools (8,000 students), provincial schools (3,000 students), francophone schools (2,000 students), charter schools (2,000 students), and in early childhood (3,000 students). Constitutionally, control over education rests exclusively with the provinces. The provinces must not, in their legislation, prejudicially affect constitutionally protected denominational rights, if such exist. There is considerable variation between provinces in terms of how education is funded and the amount of money available on a per student basis.

In Alberta

As part of a major restructuring initiative in 1994, the Alberta government moved to a system of completely centralized funding for schools. Funding is provided to schools by means of allocations from the provincial government, based essentially on per student grants. In addition to basic instructional grants, special grants are available for specially designated students.

The government allocates grants from two sources: Just over 60% of education grant monies to school boards come from general revenue. Just under 40% comes from a property tax, based on a mill rate established by the province and imposed, uniformly, province-wide.

Separate school boards (at present all of these are Roman Catholic) in Alberta are permitted to establish their own mill rates and collect their own property taxes from their own, constitutionally defined, supporters. In practice they adopt the provincial mill rate. Were these boards to collect more money, on a per student basis, from their tax base, than they would receive from the centralized fund, they are statutorily required to pay the excess back into the central fund.

Government has established the Alberta School Foundation Fund (ASFF) into which all centrally collected educational property tax monies are placed. This fund is audited separately from general revenues and can only be used for educational expenditures.

The present school mill rate is 6.95, down from 7.64 in 1993. This is a drop of almost 10%. However in the same period of time the amount of revenue raised, provincially, by means of educational property taxes has increased from $629.6 million to $706.1 million, a jump of 12%.

The Alberta Funding Scheme

Based on some fundamental principles:

- Equity – driven by student numbers
- Administrative costs kept as low as possible
- $$$'s more directly tied to instruction
- School-based decision making expected
- Increased choice for parents

Funding is provided to school boards (or schools in the case of Charter or Private schools) by means of three block grants:

1. An Instruction Block,
2. A Support Block, and
3. A Capital Funding Block

School boards are quite limited in their abilities to transfer monies, within and among, funding blocks.

The instruction block provides for the reasonable cost of instructional programs and services including the cost of principals, teachers, instructional support staff, learning resources and supplies, equipment and furnishings used in the instructional program.

The Basic Instruction Grant

School boards currently (1998-99) receive	$3,860 per student.
In Sept. 1999 this will increase to	$3,976
And in Sept. 2000 to	$4,055
Private schools currently (1998-99) receive	$1.902
In Sept. 1999 this will increase to	$2,187
And in Sept. 2000 to	$2,433

The Instruction Block also contains funding for students with special needs. In addition to the Basic Instruction Grant boards receive the following amounts for each classified student:

	1998-99	1999-00	2000-01	2001-02
Severe Phys/Mental	$11,600	$11,948	$12,187	$12,431
Severe Bev/Emotional	$8,910	$9,177	$9,361	$9,548

The instructional block also contains, among other features, grants dealing with areas such as English as a second language, Native education, Early literacy initiatives, Technology integration, Home education, and such factors as sparsity and distance from a major centre. A school board may transfer particular grant monies within this block from one instructional area to another "subject to program goals being met." A board may transfer up to 2% of the Instructional block monies to the plant operations and maintenance or transportation components of the Support block. A board may transfer monies into this block from the support block.

The support block provides for the reasonable costs of plant operations and maintenance, board governance, system administration, student transportation and boarding students away from home. This block contains grants relating to: plant operations and maintenance, board governance and administration, and student transportation.

Funding relating to Board governance and administration is according to a formula which grants a minimum amount of 4% of the sum of the amounts in the Instruction block + the amount in the operations and maintenance grants + the amount in the transportation grants. All boards with more that 6,000 students or more receive the 4% allocation and those with fewer than 2,000 students receive a 6% allocation. Those between 2,000 and 6,000 receive a grant based on a graduated calculation.

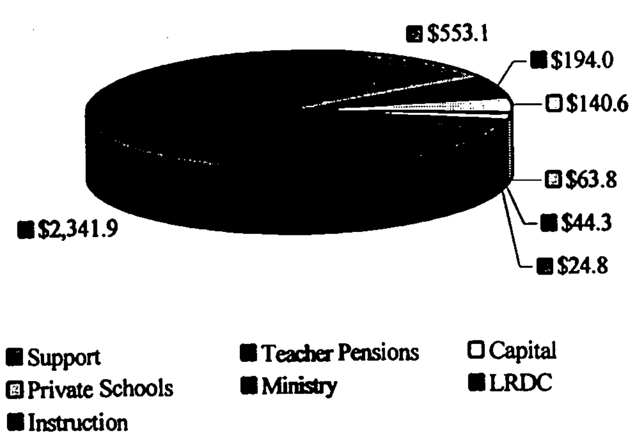
A school board is permitted to transfer any money it wishes, out of this block and into the Instruction block. A board may transfer up to 2% of the Instruction block monies to the plant operations and maintenance or transportation areas within this block.

The capital block contains grants relating to: the building quality restoration program, debt retirement, school capital projects, and temporary leasing of school facilities. School boards may not transfer monies into or out of this block. Eligibility for funding within this block is always subject to approval of the School Facilities Branch of the Ministry.

The Latest from Government. . . .

In the next three years the government will "reinvest" $98.7 million in K-12 education, $200 million to increase grants, $194 million for anticipated enrollment growth, $66 million for a school performance incentive program, and $26 million for a cross-department student health initiative. In the 1999-2000 school year spending will be $3.36 billion: $2.527 billion for instruction block, $553 million for support block, and $140 million for capital block.

Figure 1: Ed Budget Allocations 1999-2000 (millions)



The school performance incentive program will provide funding to school boards based on improvement targets in student learning at the jurisdiction level. Key performance indicators such as provincial achievement test and diploma exam results, and high school graduation rates, will help determine the allocation of this funding. The program also accommodates a number of locally determined performance indicators. However, this program is not a ranking system. Jurisdictions will be measured against their own room for improvement as assessed against their own previous performance. All public and separate school jurisdictions are eligible. The program will be implemented in the upcoming school year. School boards that earn an award will receive the additional funding in 2000-2001.

Issues and Concerns

- A general, widespread belief that the entire system is still significantly underfunded. Per pupil spending, in constant 1986 dollars have decreased notably in the past decade from $4,772 in 1988-89 to $4,310 per student in 1999. This figure may be inaccurately high as the enrollment figures on which it is based is at least 30,000 below actual numbers!

- School boards have very little discretion as to how to spend monies. The block funding and the conditional or matching grants substantially reduce boards' abilities to establish and meet local priorities.
- The question of removing the right to tax from school boards is still in the courts and in the case of separate schools boards, may be an issue for some time.

- Average salaries for teachers, in constant '92-'93 dollars are lower than they were in '92-'93.

- The pupil-teacher ratio stands at 18.07:1 compared to 17.22:1 in 1985-'86. This figure peaked in '94-'95 at 18.23:1 and has been dropping since then. It is anticipated, however that it will increase again this fall as many school boards will be forced to reduce numbers of teachers due to financial shortfalls caused, at least partly by contract settlements.

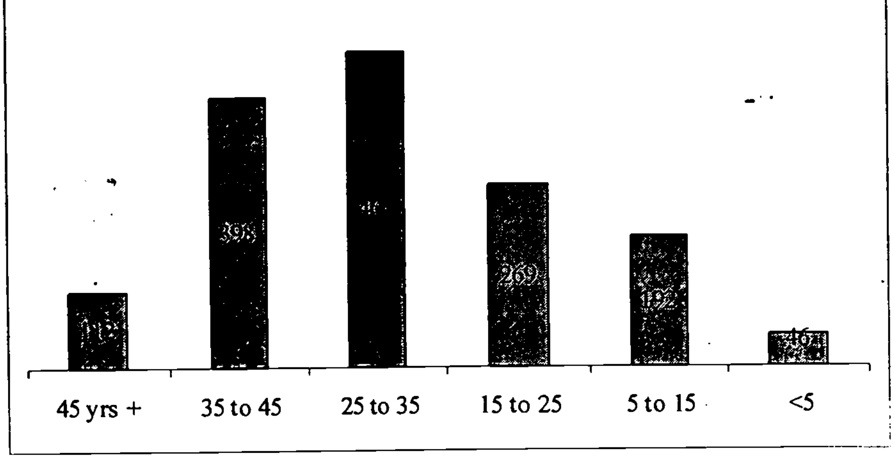
- In March 1999 more than half of Alberta teachers were working without contracts for the 1998-99 year.

- A majority of Alberta's school boards have reported deficits despite being required by law to operate within balanced budgets.

- There has been a huge increase in the amount of fund-raising activities that school communities are obliged to engage in. Many school systems report that they obtain "school generated" revenue that amounts to as much as 7% or 8% of the total they receive in the Instruction block, and some report as high as 10% in this category. Some districts also report thousands of dollars in revenue from "gifts or donations."

- Serious concern regarding facilities. There is a shortage of schools in newly developed areas. A significant number of schools are very old and require considerable renovation. Of approximately 1500 schools reported on in a recent study, over 500 were more that 35 years old, and more than 100 were over 45 years old. Fewer that 300 had been built in the last 20 years.

Figure 2: Age of Schools in Alberta



CALIFORNIA

School Funding and Education Reform in California, 1999

Lawrence O. Picus
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Introduction

In November, 1998, California's voters elected Gray Davis governor. The election campaign focused heavily on education, and Davis promised to be a strong leader in support of school reform and accountability across the state. This theme resonated well with the voters who felt that schools in the Golden State were in dire need of improvement. As a sign of their readiness to support schools, voters approved a $9.2 billion bond measure for school construction. Of that total, $6 billion is to be devoted to the construction of K-12 schools.

The task ahead is not easy. Over 5.5 million children are expected to enroll in the state's K-12 public schools in the 1999-00 school year. More than a quarter of these children come from homes where the income is below the poverty level, and some 1.5 million do not speak English as their primary language. Moreover, despite substantial gains in per-pupil spending in the last two or three years as California's economy as rebounded from the recession of the early 1990s, spending levels remain low compared to the rest of the nation.

At the same time, student test scores, when available, lag behind expectations. In the recent NAEP reading test, California's school children scored lower than 37 of the 39 states that participated in the state level analysis. A standardized state-wide test, the Stanford 9, was given to all students for the first time during the 1998-99 school year, but because of the political fallout over past tests, there is no baseline to which these scores can be adequately compared.

Recognizing the profound need for education reform, Governor Davis has called the Legislature into special session to deal with these important issues. The special session runs concurrently with the regular session of the Legislature. The advantage to calling a special session is that legislation enacted during the special session takes effect 90 days after the special session ends, whereas laws enacted during a regular session of the Legislature do not become effective until January 1 of the following year. Enacting these reforms poses a major challenge to state educational policy makers and leaders. The purpose of this paper is to describe the proposed reforms being considered by the legislature and to put the proposals into a fiscal context. Despite a proposed 1999-00 K-12 budget of $42.9 billion, California remains a relatively low spending state for education. The implications of that relatively low spending on the success of the proposed reforms is critical. Therefore, the second part of this paper updates the current status of school finance in California.

In addition to describing the general fiscal standing of the school system, the paper describes recent changes to the finance system including the impact of the state's class size reduction program, a new funding model for special education, and how changes in attendance accounting are likely to impact future reform efforts.

Proposals for Education Reform

Governor Davis' proposal for education reform was included in a $444 million package called READ (Raising Expectations, Achievement and Development in Schools). Four bills, as well as a number of budget bills were introduced by the Governor and his supporters to implement the READ program. A number of other bills focusing on teacher competency and accountability have been introduced by the Republican minority in both houses of the Legislature. The four major reform bills, focus on improvement of reading skills, professional quality and school accountability. The discussion that follows is current as of early March, 1999 and will undoubtedly change before the legislation is fully enacted.

Reading

The 1999-00 budget proposal contain includes $186 million for a number of reading initiatives. Of particular import during the special session on school reform is a $75 million program called the Elementary School Intensive Reading Program. This program will focus its resources on students in grades K-4 who are having the most difficulty learning to read. Among the components of this program are:

- Funds for the University of California to develop teacher and school administrator preparation programs.

- Establishment of Reading Professional Development Institutes operated by the University of California. The Governor is hoping to improve teacher training at the University of California to compliment the teacher education programs at the California State University System.

- A public involvement reading campaign to encourage family participation in reading.

- A reading award program that would grant as much as $5,000 to schools where students read the greatest number of approved books.

Teacher Quality

In an effort to improve the skills of California's teachers, legislation was introduced to establish the Peer Assistance and Review Program for Teachers. The goal of this program, according to the Governor, is to foster constructive communications among teachers, not to simply identify poor teachers (Howell & Carlos, 1999a). An interesting feature of the proposal so far is that the Peer Assistance and Review Program would be subject to collective bargaining between school districts and the union representing its teachers. To insure that districts participate in the program, initial versions of this legislation contain the provision that districts not participating in this peer assistance would lose the cost of living adjustment to their revenue limit -- a substantial amount of money.

To pay for this program, the California Mentor Teacher Program, established through Senate Bill 813 in 1983, would be eliminated and the funds used to pay mentor teachers redirected to this program.

As envisioned, the Peer Assistance and Review Program raises a number of questions about how teachers will be evaluated, and for now does not address the role of student performance assessments in teacher evaluation. How this will be resolved was not clear as of March 1999.

School Accountability

Holding schools accountable is a critical policy concern in California. Two bills introduced on behalf of the Governor for the special session deal specifically with this issue. The proposal calls for the development of an Academic Performance Index and interventions for under performing schools.

Academic Performance Index

The Academic Performance Index is envisioned as a single index number that would essentially rank each of the 8,000 plus public schools in California. The index would include a number of factors, although the Governor has proposed that 60 percent of the index be the results of the state-wide standardized test -- STAR. The other 40 percent could include such things as attendance rates, graduation rates and other indicators. A school would be expected to target improvement in the performance index of at least five percent a year.

Interventions

At this point the accountability program is mostly one of sanctions for poor performance. Prior to the establishment of the Performance Index, schools that scored below the 50^{th} percentile on the STAR test would be subject to interventions. Initially, this would allow them to apply for $25,000 to $50,000 planning grants to improve their schools. If approved, state funding of as much as $150 per student would be available to the schools.

Schools that failed to meet their growth targets would be reviewed at public meetings and the school board and an external evaluator might be granted authority to make changes in personnel assignments and negotiate changes to collective barraging agreements aimed at helping the school reach its performance improvement goals.
If the goals are not met in the second year, the school would be labeled "educationally deficient" and the Superintendent of Public Instruction, along with the State Board and the local district could reassign the principal. Other potential sanction could include allowing students to switch schools, reassigning staff, making district management changes including appointment of a new superintendent and suspension of the board's authority (Howell and Carlos, 1999).

High Performing Schools

The Governor has proposed establishment of $125 million in incentives for schools that meet and/or surpass their performance targets. Awards would be given to schools in amounts not to exceed $150 per student. Greater flexibility in the use of categorical funds is also being considered as part of this program.

High School Exit Exam

The final part of the Governor's proposals relates to student accountability. One of the bills would require the development of a high school exit examination. Beginning in 20002-03 all students would have to pass the exam to earn their high school diploma. It should be pointed out that as of March 1999, when this was written, none of the proposals had been enacted into law. The potential for dramatic change in the form of the program remains high.

The Fiscal Status of California Education

This section of the paper describes the current fiscal condition of California's schools. As such, it continues the analyses done as part of this series since 1993 (see for example, Picus, 1993; Picus 1995; Picus, 1996 and Picus 1997). This section therefore focuses on the Governor's budget proposal for K-12 education and the implications for enacting the reforms described above. It also contains brief descriptions of the new special education and attendance accounting systems.

The 1999-2000 Education Budget

The Governor's proposed budget for K-12 education for 1999-2000 amounts to $42.9 Billion. Revenues for K-12 education come from a number of state, local and Federal sources as displayed in Figure 1. The figure shows that the state contributes the lion's share of funding for schools. Moreover, since the Legislature also determines how property taxes are distributed among jurisdictions, in reality, the state also controls property taxes that go to schools. In short, something like 80 percent of total revenue comes from the state or is controlled by the state.

The largest single piece of the $42.9 Billion is for Proposition 98 funding. Passed by the voters in 1988, Proposition 98 guarantees a minimum level of revenue for the schools from the state. This consists of state general fund contributions and property tax collections for a total of $33.12 billion in the proposed 1999-00 budget. The Proposition 98 funding is estimated to be $5,944 per pupil in Average Daily Attendance in the state. This figure is substantially below the average for the nation. Figure 2 shows graphically how California's per pupil expenditures have compared with national averages between 1971-72 and 1997-98. As that figure shows, over time, the gap between California spending and the national average has grown.

Approximately 30 percent of total state funds are distributed to local school districts through categorical programs. There are some 70 different categorical programs in the state, the largest being special education and the class size reduction program. The state contribution to special education costs is estimated to be $2.2 billion in 1999-00, and the class size reduction program -- which provides funding to lower the class size in grades K-3 to no more than 20 students will cost a total of $1.54 billion.

Special Education Funding

In 1997, the California Legislature changed the way special education is funded. The system established under Assembly Bill 602 (Chapter 854/1977) shifts funding for special education from a reimbursement model based on services provided with costs reimbursed at a rate determined on the basis of expenditures nearly 20 years ago. The old model was needlessly complex. Moreover, since the base year where expenditures by type of program were determined, allowable reimbursements had been increased on the basis of a COLA that did not keep up with inflation. Moreover, the process did not recognize changes in the way services are provided to children with disabilities, resulting in most districts spending money from their general funds to fully fund special education services. Under the new model, districts are granted special education money on the basis of a fixed percentage of their enrollment. The amount of money they receive is determined on the basis of a complex cost formula. Theoretically, a dollar amount per district ADA is estimated and provided to the district to use for special education services. Because the state has a complex system of Special Education Local Plan Agreements (SELPAs) which overlap school district boundaries I many locations, the law created a very complex procedure to move to the new system over a two year period.

Attendance Accounting

Until this year (1998-99), a district's average daily attendance (ADA) was based on the number of students present plus the number with excused absences. Starting in 1998-99 ADA is based only on students who are present. This has the effect of reducing a district's ADA. To keep districts from losing funds under the revenue limit funding system (essentially a foundation program), an adjustment to each district's revenue limit was made so that if attendance rates remain constant from one year to the next, they would receive the same revenue per ADA adjusted by the 1998-99 COLA. Over time this will change the incentives for districts to encourage school attendance.

Conclusion

Governor Davis 1999-00 budget proposal includes new funding for his school reform initiatives, but beyond that has little in the way of new funding initiatives. California school finance, despite a number of recent changes designed to reduce its complexity remains confusing, complex and difficult for most school officials to understand. If school officials and policy makers have trouble understanding the system, it is unlikely that many members of the public are able to understand how the state's schools receive their funding. Continued simplification of the distribution formulas is needed.

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DELEWARE

Accountability and Reform in Delaware

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Overview

Delaware, like many other states is currently undergoing many initiatives and proposals of educational reform that promise to significantly transform its K-12 educational system. The highlight for the year 1999 has been the attempt to pass very ambitious and politically charged Accountability guidelines, especially those establishing the responsibilities for educators using refined and critical, although controversial, measures. A small state with only 19 school districts, Delaware is very much similar to other states in the dynamics and complexities of the economic, political and social structures that shape its state educational policies. The reform initiatives that started early in this decade and are continuing owing to the vigor of the state governor and the eagerness of the state legislatures, have certainly created an aura of change and a sense of urgency to meet the needs and establish the responsibilities of the state's educational system, as it serves a growing student population well into the next century. Although some of those reforms have been swift achieving qualified success, many remain slow in their adoption and implementation, not to mention their effectiveness. The state government is forging ahead by mandating comprehensive and quite ambitious accountability guidelines. In a state where government currently provides almost two-third of school funding, the latest economic windfall has not only allowed the funding of most of the legislated reforms, but also contributed to the acceptance of most of these reforms which would otherwise be hard to adopt. Likewise, the existence of a state budget surplus has spurred many radical proposals that would reshape the way K-12 education is funded. Substantive reforms to the way state-provided school funds are distributed remain, however, elusive.

Delaware is the second smallest state in the nation, is 4th smallest in population (nearly 739,000), but the 7th most densely populated state. Public Education, as in most other states, consumes the highest percentage of state funds (34.1%). In 1997-98, the state enrolled 111,960 pupils (48th in the nation) in 174 public schools within the 19 school districts in its 3 counties. Of those schools, 31 are high schools, 114 are elementary and middle, 17 are early education, and 14n are special education schools. About 37 percent of enrolled pupils are considered minority, and about 13 percent are enrolled in special education programs. The state employs 7,991 professional staff, of whom 6,794 are classroom teachers (85%). Of the classroom teachers, 47.4 percent hold masters level and higher degrees. With about 15.1 years of experience, they earn an average salary of $42,439 (12th in the nation). Current 1997-98 expenditures of $7,234 per pupil for public elementary and secondary schools ranked Delaware 7th in the nation. The state provides higher than average support for public K-12 education (66.5%), making up for the relatively low contribution by local governments (28.1%). Federal revenue provides the remaining 5.3%.[1]

After over a decade of declining K-12 public school enrollment between 1975 and 1985, the state experienced a reversal of trend over the next eleven years with an average of about 1.6% growth each year. However over the same period, classroom teaching staff increased by only 1.3% overall, with a relatively higher proportion employed in special rather than regular instructional programs. As a result, estimates of regular class size as revealed by the pupil-to-teacher ratio have increased. This lead to the recent reform initiative to reduce the average class size. The state legislature and the governor have been exceptionally active during the last three years in proposing and implementing various reforms to the structure and the process, which pays for educational services. The state is also currently undergoing a process of debate and analysis of the methods by which education funds are raised and distributed. This is occurring while the state is still dealing with the adoption of other reforms that include new and comprehensive educational standards, accountability, and school choice. The impact of these reforms has focused attention on many finance related issues, primarily the way the state has been providing funds for its public school system and the role of accountability at the local level.

The School Funding Process

State support for public schools in Delaware is provided through state General Revenue funds with no earmarked taxes or fees for education. Funding revenue and distribution are primarily determined by five major components (School District Operation funds); three are termed "divisions", and two cover some of the districts' transportation and debt service costs. Division I, is the primary component that is determined by enrollment, through a "unit" (primarily the equivalent of the number of students per staff) funding system. It drives the allocation of personnel (weighted "units" based on Average Daily Membership) that eventually determines the primary component of funding depending on a state salaries and benefits scale.[2] In 1998-99, this fund provided nearly 76 percent of total state appropriations to districts, which pays roughly 70 percent of all districts' personnel expenditures, ranging from teaching to administrative to support staff. The second component of the formula, Division II, funds all other school costs (excluding transportation and debt service) such as material, supplies, and energy costs. Those funds are flat grants based on "units" of enrollment. The third component, Division III, is an equalizing fund used to compensate for fund-raising disparities between property rich and poor districts. Equalization funds are distributed in an inverse relationship to local property wealth based on enrollment. These are incrementally capped at a certain percentage for a given level of property wealth using an ability index. Districts have a considerable discretion in their usage, although those funds only amount to about 8 percent of total state appropriations. The

[1] Expenditure figures provided in this chapter are actual figures drawn from *Report of Education Statistics: 1997-98*, while rankings are drawn from slightly adjusted figures/estimates in *1996-97 Estimates of School Statistics*.

[2] Delaware Code, Title 14.

average appropriation for all the three Divisions per "unit" amounted to roughly $51,580 in 1998-99. Transportation funds fully compensate districts for their estimated cost of transportation using a annually established formula by the State Board of Education. Debt service funds compensate for the state's share (based on a predetermined formula rate) of the cost of principal and interest on bonds issued for school construction and renovation. Additional special and categorical funding is provided to cover capital outlay (based on an ability index formula), academic excellence units, and other operational programs that change each funding year.

For 1998-99, salaries and benefits consumed the bulk of total state appropriations (58.7%), followed by the district wealth equalization fund (8.1%) followed by transportation (7.8%). Appropriation for Division II (energy, material and supplies) consumed 5.7% of total state appropriations. Block Grants for functions such as academic units, adult education, and professional accountability and advancement funds followed at 5.6%. Special needs programs (5.1%) followed those. "Other" functions such as K-12 pass through and driver training absorbed the remaining 9 percent of total state K-12 appropriations that amounted to $637,513,900. Delaware's 19 local school districts (3 of which are vocational-tech districts) are autonomous in their taxing authority. Local school districts are required to raise the bulk of their share (for current operating expenses) through district-wide referenda. They are also allowed to charge "tuition" taxes for special education programs, although without referenda. Their responsibilities also include raising funds to cover their share of current expenditures, debt services, and the "major" and "minor" capital improvement funds that finance construction and maintenance of building structures. Capital improvement funding by the state varies with a district's ability to raise funds. While the vo-tech districts' capital costs are fully covered by the state, most of the other districts (based on their ability index) are required to raise 40 percent of the Capital Improvement Funds. No district (regardless of wealth) is allowed to contribute less than 20 percent. Approval of local referenda allows district authorities to set property tax rates sufficient to pay for bonded expenses (capped at 10 percent of the district's assessed property value). Districts are limited to only two scheduled referenda within a 12-months period. Local school district funds are derived from the property tax collected using either tax rates expressed per $100 assessed valuation or a capitation (or head) tax, used in a few school districts in Kent and Sussex Counties.

School Reform Initiatives and School Finance

The 1999 General Assembly was again exceptionally active in matters having direct impact on the state educational funding system. Activities ranged from defining and adopting multi-faceted accountability measures to fine tuning existing school funding methods as impacted by some of the reforms. The most sweeping and contentious reform was the attempt at adopting comprehensive and detailed accountability guidelines for all stakeholders, including teachers. The other profound reform proposal was the attempt to revamp the school funding process by abolishing the local property tax and substitute its revenue with state provided funds. Despite the relatively and comparably low reliance on local effort to fund educational programs in the state, local funds are nonetheless a crucial source for meeting the needs of districts, not only in making up their share of funding, such as paying for the remaining salary and benefit costs, but also in implementing worthy programs that are not otherwise funded by state or federal sources.

Local Districts have been facing two major problems in raising local funds. Existing property taxes are not only notoriously non-uniform across districts, but also non-uniform in their methods of assessment. One county relies on basing its assessment structure on property values dating back to 1974. Because property taxes must be approved by public referenda, many school districts have been experiencing difficulties in raising their share of funds. In some districts, referenda repeatedly failed to pass recently, leaving necessary programs under-funded. A recent survey (Delaware Research and Development Center, 1996) indicated that more than half of Delaware residents believed that their district's funds are not well spent. This has in many cases played a major factor in the defeat of quite a few recent district tax referenda. While equity of school funding in the state has not been a major concern, due primarily to the high proportion of the state's share of funding its public schools, the erosion of the reliability of referenda passage for local funding is evoking serious concerns, however. This, in turn, has created enough political pressure on the state legislature to look into revamping the current funding system. In fact, house Republications re-introduced a bill ((HB-1; which failed in the 1998 legislative session) requiring the state to fully fund all of K-12 education, and to abolish local school district taxes in a phased-out five-year period. Although the same bill was seriously debated in the legislature during the 1998 session, it did not get the same level of attention during the 1999 session. That was primarily due to the threat of a veto by the governor if passed, and the recommendation against its proposal by the committee that was established by the 1998 Legislature and charged with studying the various revenue alternatives. The bipartisan committee (headed by the state commissioner of finance and staffed by key players) recommended to the 1999 Legislature some reforms to the property tax, including enhancing equity of property assessment among the districts and reducing some of the tax rates. The committee also proposed a revised approach in providing equalization funding (Division III) to enhance equity by having the state contribute more into a foundation funding pool in the equalization fund, thereby reducing the required local effort, especially for property poor districts. The final report of the committee did not support the abolishment of the property tax, despite the current state budget surplus that would pay for the phased-out cost. The governor, as a compromise with the legislative majority, proposed a 50 percent tax break on local school property tax for senior citizens and would make available an extra $27 million for school construction. The Legislature met in a special session late during the summer of 1999, and passed a $30 Million new bond bill that allows district boards to determine how to use their share of these new funds in reducing the local property tax. Districts have the option of using the funds for tax cuts for senior citizens or for any projects except major capital improvements or debt service. The money can be used for the local share of salaries, education technology, minor capital improvements or classroom equipment. In effect this bill provides some relief to some referenda-stricken districts, although it would still amount to only a small portion of the needed operating expenses of some districts.

Other measures that impact schools funding in the state were mostly enacted in 1998. The most significant among them is the reduction in class size for early grades and its impact on unit funding in the funding formula. The bill (HB758) lowers the required unit fund for Kindergarten grades from 1 unit per 40 pupils to 1 unit per 34.8 pupils, and from 1unit per 19 pupils to 1 unit per 17.4 pupils for grades 1-3. It also permits school districts to use up to 5% of teaching units for instructional aides. It requires districts to cap class size in K-3 in which core academic subjects are taught to 22 unless waived by the local school board. A related legislative bill (SB334) that would have provided 100 percent funding for constructing additional classrooms needed as a result of this bill was debated but was not acted on. Many local education officials have expressed concern about their ability to absorb the required costs, especially with existing problems in raising local fund and finding the qualified teachers to staff the additional required classrooms. There were bills that were introduced to the 1999 Assembly that would further reduce the class-size for all grades, and others that would compensate districts for the bulk of their school construction cost as a result of the class size reduction effort. Those bills did not pass.

The most significant reform that has proven to be contentious this year has been the fine tuning of the Accountability Act of 1998, that promises to significantly change K-12 education in the state through sweeping measures. The Bill that passed (Substitute 1 for SB 250) was a culmination of a long and litigious process that involved all major political players, as well as the general public for over a two-year period. It spells out the responsibilities of students, schools, teachers, administrators and the state Department of Education in achieving those standards. Under this Act, schools and school districts that perform well would be recognized, while schools and school districts whose performance is deficient would be held accountable under the auspices of their local school boards. The Act intensifies the state role by providing the needed support for low performing schools and districts in helping them improve their performance. The Act also intends to eliminate social promotion practices by requiring grades 3, 5, 8 and 10 students who do not perform at standards level in both reading and math, to attend summer school. If students were to still fail in demonstrating grade level proficiency after that, they would be held back. 8th-grade students must especially demonstrate their proficiency in mathematics before they move into high school. The state Department of Education is also required to establish criteria for ranking schools, and subsequently their home districts (using percentages), on the basis of their performance in improving the academic achievement of their students in the core subjects of English/Language Arts, mathematics, science, and social studies. The criteria consider the collective performance of a school's student body on the state assessment tests in these core subjects.

As part of the law, the General Assembly directed the Secretary of Education to develop a proposal for an accountability system for public education. The Secretary appointed work groups to develop sets of recommendations about how Delaware should proceed. The task forces developed multi-faceted and far-reaching recommendations, especially in adopting policies of teacher professional development and accountability. Their work was not entirely heeded, as the governor and secretary of education issued their own plan of strict accountability measures that have been controversial and quite ambitious, particularly in their version of the teacher accountability measures that are tied to student performance standards.

Until this year, many in Delaware hoped that the state's decade-long education-reform effort will generate enough changes that are needed for better education in the state. But the last installment of that effort -- a measure to hold teachers accountable for student performance -- stalled in a special session of the General Assembly in late October 1999. The legislation would have set up a professional standards board made up mostly of teachers. That board would issue rules for evaluating teachers and school administrators. A major component of the evaluation process would be student test scores, though the performance of pupils whose parents did not meet their responsibilities would be excluded. Starting in 2003, teachers who show a pattern of ineffective teaching under the standards could be fired. The bill also contains detailed and refined three-tiered process of teacher licensing and certification guidelines. During the October special session, legislators debated the makeup, authority and independence of a professional standards board, as well its ability to write rules for teacher accountability. Complicating the effort of passing the bill was the fact it had some element linking student and teacher accountability. How to clearly extricate the responsibilities remains a hotly contested issue that threatens to derail the entire accountability movement. The issue was deferred to a later session that would most likely not happen till the next regular session in the spring 2000. The governor has threatened to bypass the General Assembly entirely, using regulatory powers to enact parts of his plan to make teachers responsible for student performance.

Lawmakers also squabbled over how to deal with worried parents who complained that state tests alone shouldn't determine student progress, thereby reopening the student accountability issue. The student accountability law (that was passed last year with scant controversy) is scheduled to take effect during the next school year. The recent (Spring 1999) test scores showed dismal performance for the state as a whole. The results of those tests were supposed to be partly used in comprising the benchmark for the accountability standard for subsequent years. As the teacher-accountability measures are being refined, student accountability for third, fifth, eighth, and tenth graders are supposed to be phased in starting next year and proceeding through the year 2004. Thousands of elementary and middle school students would have to attend summer school or be held back if they didn't meet academic standards in reading, writing and mathematics. This would have an exacerbating effect on some districts' capacities to deal with resulting added need for already scarce resources that are not fully paid for by the state.

It is hard to predict how Delaware's teacher-accountability proposal would affect efforts to recruit teachers. No other state has adopted such tough standards for teachers[3]. Delaware has a critical need for qualified teachers, especially in the core content areas. It is also estimated that within five years, 40 percent of Delaware's teachers will be eligible for retirement (Carper and Metts, 1999). Earlier during the year the task force on teacher development reported on what the state should do to recruit more and better teachers, but the

[3] Four other states (Tennessee, Texas, Minnesota and North Carolina) have adopted teacher-evaluation systems that vary in incorporating student achievement as a measure. However none is as strong and explicit as Delaware's.

General Assembly funded only about one-quarter of its recommendations. Some of the recommendations by the task force, including a 15 percent raise in salaries for beginning teachers and the creation of salary supplements for skills, knowledge and extra responsibilities; were part of the now tabled bill that was introduced during the fall special session.

Conclusion

The Accountability Act, although significant as a policy, and for the first time establishing guidelines for each of the stakeholders; still remains a challenge for the state in its attempt to address the resulting needs of schools and districts. Under this Act, the plan for professional accountability - professional teaching standards, teacher recertification, evaluation, professional development, teacher skills requirements, and employment practices for school administrators- all require a considerable commitment of resources that the state appears to provide in increments that might prove to be too little for some. As in many other states that are wrestling with implementing educational accountability reforms, Delaware is facing a considerable challenge in having to come up with practical plans and guidelines to meet the level of desired standards in a context with many obstacles. Aside from the political and administrative complexities that the proposed objectives face, the plan could prove to be quite costly over the long run. For example, it is not clear how much extra funding is required for students who are expected to be retained due to failure and eventually end up being longer in the system. There is also the issue of the extent of the cost of developing and enforcing a system of standards that is workable. The cost of class-size reduction in light of the dire need for qualified teachers primarily in the core content areas is especially concerning. Experiences in other states indicate that such cost has been underestimated (Brewer et. al., 1999; and Picus and Tralli, 1998). From the district perspective, a major issue is whether they will be able to afford implementing the accountability program despite some the added stipulation to help build school capacities in areas such as professional training and availability of classroom space. Given the current funding structure, smaller districts face an additional challenge in meeting the funding requirements. The impact of many of the recent reforms, including the Accountability Act, will try the state districts' capacities, especially when almost thirty percent of teacher salaries and benefits need to be raised locally and through referenda taxation. The recent recommendation by the Finance Reform Committee and the Legislature's attempt to provide funds to adjust the "equalization" component of the funding formula is certainly helpful to property-poor districts and improves on the equity of funding among districts. However, many in the state fear that unless there are more serious efforts to equalize the capacity of districts to raise funds so that they can afford the needed programs to implement the new reforms, it would be hard for many districts to achieve those reforms' objectives.

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FLORIDA

State of Florida: Fiscal Implications of Its Educational Reform[1]

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An Historical Perspective

Eight years after the enactment of Florida's reform legislation with emphasis on high student performance, funding mechanisms and budgeting processes are being more intensely addressed. Prior to the 1998 Legislative Sessions lawmakers had required that school advisory councils be created in every school in Florida's 67 school districts (each district being a county). The lack of all schools having a school board approved school improvement plan could cause the district's entire lottery funds allocation to be withheld. School advisory councils were to be created to conduct a needs assessment, develop a school improvement plan, and produce and publicly disseminate an accountability report containing the results of the implementation of the plan a year later. The councils however were "advisory" to the principal, the law read "Each school advisory council shall assist in the preparation and evaluation of the school improvement plan...and shall provide such assistance as the principal may request in preparing the school's annual budget and plan as required" (Florida Statutes, 229.58(2)).

In 1997 the legislature attempted to more specifically link the school improvement plans and the expenditure of funds. The school's accountability report was to be expanded to include a short, user friendly annual financial expenditure report. It required that each school district's annual financial report contain information detailing how much money was available for public schools at the school, district and state levels from state and local dollars, lottery dollars, federal dollars and private donations. Further, the expenditures were to be reported as total expenditures per unweighted full-time equivalent student at the school level, and the like average expenditures at the district and state levels according to nine key areas:

- Teachers and aides providing direct instruction by program
- Substitute teachers
- Other instructional personnel
- Contracted instructional services
- School Administration
- Material, supplies and other operating capital outlay
- Food services
- Other support services
- Operation and maintenance of the school plant

[1] This paper was prepared in April, 1999, before the Florida Legislature passed legislation enacting Governor Jeb Bush's "A Plus Plan" which included a new set of performance measures as well as fiscal and institutional consequences that may result from failure to reach targeted objectives.

These new reporting requirements foreshadowed operational changes to come.

Budget Involvement

Presumably still not satisfied with the connection between the school improvement planning process and the expenditure of funds, a very aggressive 1998 legislature passed significant changes to Florida's System of School Improvement and Accountability and they became law without the Governor's signature. Again using lottery dollars as a lever, the law now stated that funds would be withheld from any district in which one or more schools did not comply with school advisory council membership requirements. A particular concern in this regard was that the majority of the members not be school board employees.

School boards were directed to provide $10 per student (full-time-equivalent) to each school advisory council to be used for their school important planning efforts. In expanding the school advisory council's role beyond advising the principal, the councils were empowered as the "sole body responsible for final decisionmaking at the school relating to implementation" (Florida Statutes, 229.58(1)) of statutes relating to the school improvement process. This authority became even more significant when their role in the budgeting process was changed. Rather than providing assistance to the principal upon request from the principal, by the 1999-2000 school year, with the assistance of the Department of Education, each school advisory council is required to assist in the preparation of the school budget and the school improvement plan. The school improvement plan beginning in the year 1999-2000, must address issues relative to budget, training, instructional materials, technology, staffing, student support services, and other matters of resource allocation as determined by school board policy.

On the Horizon

The election of Florida's first Republican governor since Reconstruction, a newly elected lieutenant governor who was the former Commissioner of Education and a former superintendent, while having a Republican controlled Senate and House of Representatives has set the stage for more reform. The Bush/Brogan A+ Plan for Education details the new administration's top priority. Governor Jeb Bush's proposed budget includes a proposed 6.12 percent increase, or $643 million, for public schools, and concurrently providing $480 million in school property tax relief for property owners. The average millage rate would drop by 11 percent from 6.5 mills to 5.792 mills.

Again tying funding to the school improvement efforts, specifically improved student performance, funds would be provided to eliminate social promotion. A total of $313 has been recommended for districts to use on intensive instruction designed to help students meet promotion and graduation standards. As proposed, schools would have maximum freedom to use these funds for innovative programs in mathematics and reading. Schools will have the latitude to use the funds for such strategies as summer school, after school programs, tutoring or extended day programs.

A newly proposed plan to rate schools A-F, based in part on student achievement, could have effects on both ends of the school performance spectrum. Beginning next year, if approved, schools which receive an A, and those improving at least one grade based on student achievement, attendance, dropout rate, discipline and college readiness will be rewarded with up to $100 per student. The schools which are the highest performing and improving will further be rewarded by being deregulated, giving them the ability to manage their own budget and use innovative strategies. On the flip side, schools receiving a grade of F for two years would be subject to State Board of Education sanctions, and the parents of the students in that school would be given "opportunity scholarships" for their children. The "scholarships" could be used to send their children to higher performing schools or private schools. It is claimed that the "scholarships" will be revenue neutral or result in a saving for the school district and state.

At the heart of Florida's Education Reform and Accountability legislation, enacted in 1991, was the intent language of "returning the responsibility of education to those closest to the students, that is the schools, teachers, and parents" (Laws of Florida, 91-283). The mechanism for accomplishing this intent, and a critical factor in the passage of this legislation, was the reduction of the number of categoricals. Florida went from over fifty categorical programs to a hand full such as transportation, instructional materials and food service. The concept was that a system of school improvement and accountability would be put in place, standards would be set, measures would determine results and the processes used by schools districts would be their decision under local control. There appears to be a move away from this flexibility with proposed legislation.

While the Bush/Brogan A+ Plan for Education increases overall dollars for Florida's, the actual Base Student Allocation (the dollar amount used before weighting programs and other adjustments) would be decreased over the 1998-99 school year. Concerns have been raised that the proposed increased number of categoricals would reduce the flexibility in the expenditure of funds at both the school and district levels. These restrictions could occur in an all time high projected education budget close to $1 billion.

Florida's Economy

According to the most recent forecasts Florida can expect continued expansion and growth in most sectors of the state economy. The current economic expansion is over seven-and-a-half years old, making it the second longest economic expansion on record. Growth rates in total personal income are expected to increase by 5.8% in 1999-2000. The projected unemployment rate of 4.3% (continuing at the same rate as 1998-99) is the lowest unemployment rate in the past 15 years. Tourism continues to be robust, with the projected number of out-of-state visitors increasing by 1.7 million in 1999-2000, or 2.8 million over 1997's record level. The population growth rate continues to decline, down slightly in 1999-2000 from 1.8% to 1.7%.

Officially, the 1999 Florida Legislature will have approximately $1,182.2 million in additional recurring General Revenue to spend over the current appropriations base, according to the Office of Economic and Demographic Research's most recent (March 8,

1999) financial outlook statement. The total available non-recurring General Revenue projected for 1999-2000 adds another $756.1 million, though this figure is $57.2 million less than the $813.3 million-level of non-recurring funds appropriated in 1998-99. In fact, there is a surplus of $573.8 million of unappropriated General Revenue in 1998-99, which is included in the $756.1 million non-recurring revenue available for appropriation in 1999-2000. The total additional General revenue (recurring and non-recurring) available for appropriation by the Legislature for 1999-2000 is approximately $1.94 billion.

School Property Tax Relief

Bush proposes rolling back the required local effort ad valorem property tax millage from the current 6.509 mills to 5.792 mills, the level required ten years ago, saving $480 million for property-owning taxpayers. An estimated 3.7 million Florida homeowners would receive an average benefit of $40 per year and 330,000 commercial and industrial properties would save $418 annually. However, an additional $219.6 million is required to provide the savings anticipated, assuming the policy of support for public schools to be at the same level as in 1998-99.

Matrix Funding for Exceptional Students

Under the previous model (1994-1995) there were 15 separate exceptional student education cost factors and 3 mainstream cost factors. Florida's system of exceptional student education funding was a traditional system based on student weighting factors. The cost factors were based on the student's disability and were applied to only that portion of the school day that the ESE student received direct services from an exceptional student education teacher. The mainstream weights were unique to Florida. It was Florida's initial attempt to provide funds to support exceptional student education students in the mainstream classes. The mainstream cost factors were included with basic program cost factors rather than with exceptional student education cost factors. The mainstream cost factors provided additional funds to basic education for the time that an ESE student spent in mainstream classes. What the 1992 Legislature found was a system that was getting too complicated and still not supporting the full continuum of services required by state and federal law.

Policymakers determined that the new funding model should "be better for students, be simplified and revenue neutral, provide support for the full-continuum of services and be outcomes driven."(Florida Department of Education) . Based on these goals, an appointed committee recommended that the number of cost factors be reduced to 5 and that the weighting should be based on the amount of services a student needs rather than on his/her exceptionality. These cost factors would apply to the entire school week rather than to just those hours that the student was being served by an exceptional student education teacher. A Matrix of Services was developed to be used by trained teachers to determine the cost factor for each eligible ESE student. Eligibility continues to be based on state mandated criteria that define when a student has a specific disability.

In 1997, the Legislature adopted the new funding model and began implementation statewide in July 1997. The authorizing legislation can be found in 1997 General

Appropriations Act and Chapter 97-307, Laws of Florida (Workforce Development Act). Section 236.024 of the Florida Statutes states the legislative intent of the new funding formula:

> The Legislature intends to:
>
> (1) Provide for implementation of the revised model for exceptional student education programs.
> (2) Simplify the Florida Educational Finance Program by reducing the number of program cost factors to provide greater flexibility at the local level in the use of the funds,
> (3) Provide for allocating funds for kindergarten through grade 12 and adult programs separately.
> (4) Continue to make progress in reducing the range of disparity in total potential funds available per full-time equivalent student. (236.024 F.S.)

Section 236.025 of the Florida Statutes states:

> (2)(a) The revised funding model uses five Florida Education Finance Program cost factors for exceptional student education programs. Cost factors are determined by using a matrix of services to document the services that each exceptional student will receive. The nature and intensity of the services indicated on the matrix shall be consistent with the services described in each exceptional student's individual education plan.
>
> (b) . . . Nothing listed in the matrix shall be construed as limiting the services a school district must provide in order to ensure that exceptional students are provided a free, appropriate public education. (236.025 F.S.)

The Matrix of Services is the "cornerstone" of Florida's new exceptional student education funding model. It is used to determine the cost factor for each eligible exceptional student education student. The Matrix of Services is completed based on the individual student's individual education plan (IEP), family support plan or educational plan (EP). The Matrix of Services is divided into five domains: Curriculum and Learning, Social-Emotional, Independent functioning, Health, and Communication. Each domain is divided into five levels of service, see Appendix B. Each level of service contains several descriptors of service options. Based on the IEP, family support plan, or EP, the teacher checks the services that the student will be receiving. The points are then added together to determine the student's cost factor (251, 252, 253, 254, or 255). Under the previous funding formula cost factors were applied to only that portion of the day that the student received direct services from an exceptional student education teacher. Under the new system the cost factor is applied to the entire school week. This allows more flexibility in the provision of services to exceptional education students.

Summary

The state's deliberations are far from over. The state has undergone considerable turnover in political leadership as a result of the November 1998 elections. The new Republican governor, Jeb Bush, replaced two-term Democratic incumbent, Lawton Chiles. Frank Brogran, the former Commissioner of Education who appointed the district advisory committee, was Bush's running mate and is now Lt. Governor. The state has a newly elected Commissioner of Education, Tom Gallagher. Governor Bush's A Plus Plan, currently under debate in the legislature, includes a new set of performance measures as well as fiscal and institutional consequences that may result from failure to reach targeted objectives. The success of the A Plus Plan will dictate to a large degree the path of educational reform in Florida.

GEORGIA

Georgia School Finance: New Governor, New Issues

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Georgia's economy continues to boom; lottery receipts continue to grow; enrollment in K-12 education has increased by 25,000 for the past two years and has now reached 1,357,000 FTE; and many local school systems have successfully passed Special Purpose Limited Option Sales Taxes (SPLOST). In November, Georgia voters elected Democrat Roy Barnes as the new Governor replacing Zell Miller (also a Democrat), who could not run for re-election. Under Miller's leadership, lottery proceeds became constitutionally earmarked for education and the Hope scholarships came into being. Governor Barnes was successful in his first legislative session in seeing campaign promises of an enhanced homestead exemption, a taxpayer's bill of rights, and the permission to appoint an education reform study commission fulfilled. This paper will briefly explore the ramifications of these developments.

The General Assembly approved an appropriation of $5.017 billion for FY 2000 representing an 6.59 percent increase ($310,272,604) over last year's funding. Of the new funding, $282.7 million will be used to fund the Quality Basic Education (QBE) formula to accommodate the enrollment growth and a four percent increase in the minimum state teacher's salary schedule. This four percent raise follows two years of six percent increases to the state minimum schedule; these actions have moved Georgia's average teacher salaries to rank 21st in the nation for 1997-98.[1] A little over $40 million is required to increase the equalization grant under the QBE. There will be no increase in the 1999-2000 school year in the amounts earned per FTE in the funding formula other than to recognize the increase in salary. In prior years, transportation support has been decreased at the expense of other categorical funding. A shortfall in funding for 2000 has again fallen to the transportation categorical. The available dollars have dropped well below the formula specified in the Quality Basic Education Act, thereby increasing the cost to the local systems.

Georgia lottery funds have enjoyed tremendous growth and have provided funds for pre-kindergarten programs, technology in the schools, and HOPE scholarships for college students. HOPE scholarships pay four years tuition (plus mandatory fees and a book allowance) to any Georgia public college, university or technical school for any resident student who had maintained at least a "B" average in high school. In 1997-98, 135,725 students received $173.3 million in HOPE scholarships. In addition, $59.4 million in lottery proceeds have been appropriated for capital outlay needs in school systems experiencing exceptional growth.

[1] *News in brief; A national roundup.* (1999, July 14). Education Week, p. 4.

Four of Georgia's counties rank among the top seven of the fastest growing counties in the United States[2] causing exceptional enrollment growth and the need for many new facilities. The state of Georgia has supported capital outlay projects through various state funding mechanisms based on need. The state issues general obligation bonds. To receive funding, the local school system must submit a long-range facilities plan. The amount of funds the system earns is based on local needs in relationship to statewide needs and the annual appropriation of the General Assembly. In FY99 the legislature appropriated $50.9 million. The local system may allow these funds to accumulate or may use them immediately in conjunction with locally raised dollars. State and local shares are determined by the system's ability to pay, which is defined as the property wealth per pupil. All systems are eligible for funding with the wealthiest paying up to 25 percent of the eligible construction costs and poorest paying 10 percent. Local funding comes from issuing bonds with voter approval; the amount of the bonds may not exceed 10 percent of the system's property value. Another source of revenue for capital outlay is the Special Purpose Local Option Sales Tax (SPLOST).

The SPLOST was a 1996 constitutional amendment making it possible for local school systems to levy a one percent sales tax for five years with voter approval. Most systems are using these special purpose funds for capital outlay needs. As of October 1998, 133 systems had SPLOSTs approved; 12 systems had them rejected and have not held subsequent referenda, and 35 systems have not held referenda. There is no equalization for this funding so that more urban and tourist areas are able to generate more revenue than the more rural areas.

Legislation of a more ominous nature that was approved in the just completed General Assembly session are bills that increase the homestead exemption credit and create a "taxpayer's bill of rights." Currently Georgians enjoy a $2,000 exemption on the 40 percent assessed value of a home. The new legislation (House Bill 553) raises the exemption to $20,000 and will be phased in over a seven-year period. A companion piece of legislation calls for the "homeowner's incentive adjustment for ad valorem property tax relief" to be voted on as a constitutional amendment. School systems and other governmental entities will be "held harmless" for this loss of revenue estimated at approximately $83 million for the first year. It is estimated, however, that due to growth in the number of homes and in the value of those homes the amount needed to fund the full exemption could exceed $900 million within the seven year phase in period.[3] The fear is, of course, that funding will be directed away from the Quality Basic Education funding to support what will most likely be a very popular tax reduction package for all homeowners. Reduction in the state funding for schools would most likely cause local systems to increase millage, and a vicious cycle of tax breaks and millage increases may be the result.

An equally ominous bill (Senate Bill 177) is the Property Taxpayers' Bill of Rights. This legislation requires that the public have more information regarding assessments,

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[2] Pace, D. (1999, March 12). *Georgia counties rank among nation's fastest growing.* Athens Banner Herald, D1.

[3] Report from the Capitol. (1999, February 15). Georgia School Superintendents Association.

especially increased assessments. The centerpiece of this legislation, however, is language requiring a rollback millage rate. The rate would represent the tax millage that would be necessary to raise the same amount of revenue after reassessments as the prior year's millage rate was able to raise before the reassessments, i.e. a device to limit revenue.

School systems that find the need to set a mill rate higher than the roll-back millage must advertise and hold three public hearings. At least one hearing must be held between 6:00 and 7:00 p.m. on a business weekday. The advertisement must appear in a newspaper of general circulation at least one week before the hearing and cannot be placed with the legal notices. The notice must include the heading: "Notice of property tax increase." An announcement of the hearing must also be made as a press release to the local media. Since Georgia school systems are allowed to levy up to 20 mills without voter approval (and only a few systems have reached this level), this new legislation should not negatively impact revenues at this time. The required wording, however, does lend itself to anti-taxpayer rhetoric and could possibly create or intensify voter opposition to financially supporting schools.

The Quality Basic Education Act was approved in 1985 and went into effect in 1986. The purpose of the Governor's Education Reform Study Commission is to identify, evaluate, and report on items that most affect or could affect the attainment of a quality basic education for all students in grades K-12. Governor Barnes is chairing the commission and has selected 64 committee members who are residents of Georgia and have interest and expertise in the field of education. The Quality Basic Education Act addresses the entire educational system, not just the funding mechanisms. The commission will review the original act and analyze the changes that have occurred over the past 15 years. Specifically, the commission is charged to review the QBE funding formula and categorical grants, to examine ways to increase coordination and cooperation between K-12 and higher education, to develop an accountability mechanism, and to develop strategies to improve school climate. In a press release announcing the appointments to the commission, Governor Barnes stated: "I am counting on this group to shake up the educational system as it exists today in Georgia. We have been able to put together a group of people who are both experienced with and devoted to educational issues, and I know that they will be able to develop sound ideas that will help restore public confidence in our schools."[4] The time line is short with the Commission expected to make its reports in December 1999 and April 2000, at which time the legislation calls for abolishing the commission.

The future holds many challenges for Georgia education. After years of incredible support for public education from the executive and legislative branches of government, it appears that Georgia's politicians are looking to other states that have enacted more taxpayer friendly legislation for guidance. The QBE's funding formula is complex, but it recognizes differing costs for differing student needs through its weighting system, it equalizes some of the mills that are levied by the local school systems, and allows for local choice to approve additional millage. Those who are sitting on the Governor's commission hopefully will be

[4] The Georgia School Superintendents Association Website, www:gssa.gen.ga.us.

objective in their analysis and recognize the good that exists in Georgia's educational system while working to make it even better.

ILLINOIS

Illinois' 1998-99 School Finance Revisions: Where Did the Increased Funding Go?[1]

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With great media attention and encouragement, the Illinois General Assembly convened in special session late in 1997 to adopt legislation that would revise the state's school finance system, raise some taxes on messages, gambling, and overdue taxes, enhance the management capacity of local school districts, and change the standards of teacher certification. The legislation was adopted with wide bi-partisan support on December 2, 1997 and signed into law by then Governor Jim Edgar two days later. This policy analysis focuses on the effects of the school finance revisions on the state's school funding system.

The rhetoric about school finance reform in Illinois shifted dramatically from a focus on equity in the early 1990s to a focus on adequacy after 1995, reinforced by the failure of school finance litigation (See Hess, 1998). Funding adequacy was defined by the 1993 bipartisan legislative Berman-Maitland Commission and set in 1997 at $4,225 per student. The General Assembly adopted that foundation level for the 1998-99 school year, and raised taxes so the General Assembly could appropriate an additional $535 million that year.

In addition to the increased funding, the Illinois General Assembly also approved major changes to formula used to distribute Illinois General State Aid (GSA) funding. Those changes include the following:

- The per pupil support (foundation) level was raised from $3,132 to $4,225.
- The elimination of all grade level weighting.
- The assumed calculation property tax rates were increased to 3.00% for unit districts, 2.30% for elementary districts and 1.20% for high school districts.
- The elimination of the "poverty" weighting and the establishment of a separate poverty grant for districts with concentrations of low income students at or above 20%. Four levels of concentration provide grants from $800 to $1,900 for each low income student.

It is important to remember that Illinois has three types of school districts: unit, elementary, and high school districts. Unit districts serve student populations of kindergartners through twelfth-graders. Elementary districts only serve student populations of kindergartners through eight-graders. High school districts only serve ninth- through twelfth-graders. First, through the 1997-98 school year high school students and seventh- and eighth-grade students

[1] The research on which this article is based has been supported by a grant from the Joyce Foundation. The authors are grateful to the foundation for its support. However, the conclusions and opinions included are solely the responsibility of the authors and do not necessarily reflect positions of the officers or staff of The Joyce Foundation.

were weighted at 1.25 and 1.05 respectively in that GSA formula. Now kindergarten through sixth-grade students were weighted the same as high school and seventh- and eighth-grade students. Second, the minimum local property tax rate (the assumed calculation tax rate) was raised a few percentage points for each type of school district. Finally, funding for students in poverty changed in the new formula. In the old formula low income capped student counts were included in the overall student weighting. In the new formula, a separate formula for funding low income students was used. As a result of using the new low income student formula, GSA funding associated with low income students decreased in 1998-99. As a consequence of these three formula changes, the distribution of GSA funds changed with the implementation of the formula first used for the 1998-99 school year. This paper will document the changes in the distribution of GSA funds in the school years before and after the implementation of the new funding formula.

Impact of Formula Changes on Foundation Level

The foundation level in the 1997-98 school year was $3,132 per student. With the increased funding, the new legislation promised a foundation level of $4,225 per student, an approximate increase of $1,100. In addition, school districts with higher concentrations of low income students would receive supplemental grants for each of these students. But, the described changes in the funding formula cause that purported increase to shrink.

By eliminating the weighting for each upper grade and low income student, the legislature removed about 300,000 "students" in the 1997-98 school year from the funded student enrollment. This means that the number to be divided into the total resource of the foundation support was smaller, inflating the per pupil student amount. In fact, if the unweighted student count had been used to calculate the foundation level previously adopted for the 1997-98 school year, the foundation level would have been $3,463, rather than the reported $3,132. Thus the actual increase in the foundation level turns out to be approximately $775 per unweighted student.

By raising the assumed calculation tax rate in the new formula, local districts were required to provide a larger share of the foundation level. For districts whose property tax rates were under the assumed calculation rate, those districts are required to raise their property tax rates or lose some GSA funding. For the many districts whose property tax rates are at or above their respective calculation property tax rate, they will have to use a larger part of their property tax to support their foundation funding instead of using those funds for non-foundation funding purposes. Since local districts not required to do so are not likely to raise their property tax rates to make this larger contribution, it means these districts will receive even less than the student weighting adjusted change of $775 per student and generally only receive around a $500 increase in GSA funding under the new formula.

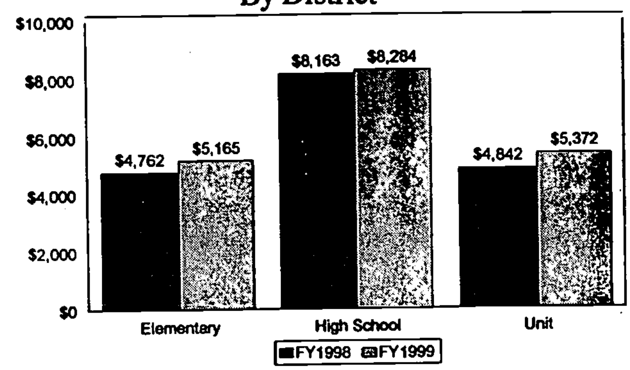
The new school finance system will provide supplemental grants to districts with more than 20 percent of their students from low income homes. As the concentration of low income students rises, the dollars per student also increase on the assumption that more compensatory assistance is required when the concentration of low income students increases (for the effects of poverty on achievement, see Hess & Lauber, 1985; Hess & Greer, 1987).

For this grant calculation, the "students" counted are the number of low income students within a district's boundaries as determined by children living in poverty at the last (1990) federal census.

School districts with less than 20% of their students from low income homes will loose all support for programs for these students under the new formula. Districts with fewer than 50% of their students from such families will generally receive less in supplemental grants than they received as a result of the weighting in the previous formula. For example, Chicago with about 46 % of its students counted as low income under the census definition (even though more than 80% of its students qualify for a free or reduced price lunch), received only about $180 million in supplemental grants in 1998-99. This amount is considerably less than $300 million received in 1997-98 as a result of the weighting in the prior formula.

Where Did the Increased Funding Go?

Chart 1
Median Unrestricted Revenue per ADA
By District



The intended impact of this revision of the state's school finance system was to increase the funding of elementary school students. As indicated in the chart above, the increased funding of elementary school students was achieved in the school districts with elementary school students median funding in elementary, and unit districts statewide increased approximately $420 and $550 per student respectively. However, in high school districts, districts without any elementary school students, funding only increased approximately $120 per student. It appears that districts with elementary school students statewide received most of the increased funds, while high school districts received only minimal increases. Despite the increased funding of elementary and unit districts, their funding is still much less than the high school districts. This small closing of the resource gap was mostly fueled by the loss of weighting given to high school students in the Illinois GSA funding formula.

Equity, in school funding terms, usually refers to whether similar students receive educational funding, regardless of what school they attend. In a totally equitable state school funding system, all regular students would receive the same funding. While this is the normal condition in most other countries, such equity is rare in the United States. Only in

Hawaii, where there is only one school district, are all students funded at the same level. However, there are a number of states in which the differences in school funding are very small, such as Minnesota, Montana, New Mexico, and California. By contrast, funding differences are quite large in Illinois.

Table 1
Equity Ratios for 5th and 95th Percentile Districts
FY1998 and FY1999 (Both using ADA)

District Type	5th	95th	Ratio
FY 1998			
Elementary	3,428	8,026	2.34
High School	4,743	12,757	2.69
Unit	3,773	5,577	1.48
FY 1999			
Elementary	4,060	8,208	2.02
High School	4,835	13,315	2.75
Unit	4,351	6,125	1.41

To determine if the new GSA funding formula was more equitable in its distribution of funding than the replaced GSA formula, we will examine the horizontal equity associated with each funding formula. To measure horizontal equity, it is necessary to measure the range of differences in funding available to similarly placed students, looking at the ends of the scale rather than comparing midpoints. One common measure is to compare the funding available to students at the 5^{th} and 95^{th} percentiles, excluding the few extreme cases on either end of the scale. This measure, frequently referred to as the federal register, is expressed as a ratio, in which the 5^{th} percentile district's funding is designated as "1" and the 95^{th} percentile funding is a multiple of it. The minimal standard of this measure adopted by the Coalition for Educational Rights is 1.5: 1.0. The following table presents the total unrestricted revenue per student for the district with the 5^{th} and 95^{th} percentile student by district type and corresponding 95^{th} to 5^{th} student funding ratio.

These data show a very mixed story about the equity of school funding in Illinois. The worst equity gap, within school district types, is in high school district. The lack of new funding corresponds with no real change in the equitable funding of high school districts from FY1998 to FY1999. The distribution of funding improved in the elementary school and unit districts. Elementary districts made the best improvement in moving toward a more equitable school funding. Unit district funding remained the district type within the recommended minimal level of funding equity.

Conclusions

For the 1998-99 school year, the Illinois General Assembly approved a different GSA funding formula and increased funding of $535 million dollars. Despite these improvements however, the inequities in funding between types of districts in Illinois was not that affected.

High school districts were the least impacted by the finance system revision and horizontal equity measures reflect this. Elementary and unit district equity was reduced after the implementation of the FY1999 revisions. Despite the gains made by elementary districts, the inequity between districts and regions in funding per pupil remains large enough that more interventions from the Illinois State legislature will be necessary to close the current funding inequity gaps.

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INDIANA

Criteria for Judging the Impact of Eliminating Property Taxes as a Primary Source of School Revenue

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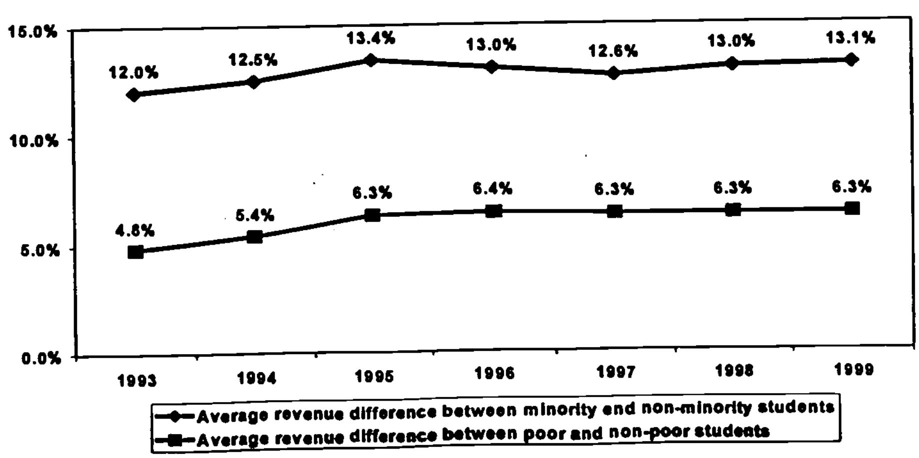
This paper first briefly updates the status of Indiana's system for funding K-12 education. The first two sections address the strengths and weaknesses of the current funding system. The goal in these initial sections is to provide benchmarks for analyzing how changes in the sources of funding might impact K-12 education in the state. The third section considers the implications of eliminating the property tax as a primary source of general aid revenue in Indiana. How might this change help ameliorate some of the weaknesses in the current formula? Equally important, what factors do state policy makers need to keep in mind when revising the state tax system in order that they retain the many strengths the current formula possesses.

Strengths of the Indiana School Funding System

In 1993, the General Assembly rewrote Indiana's school funding formula in order to provide more equal access to revenues among the state's 294 school corporations. While the new formula increased per-student revenue by about 10% in inflation-adjusted dollars between 1993 and 1999, a crucial issue when we consider a 10% real increase in revenue is who is receiving these additional funds.

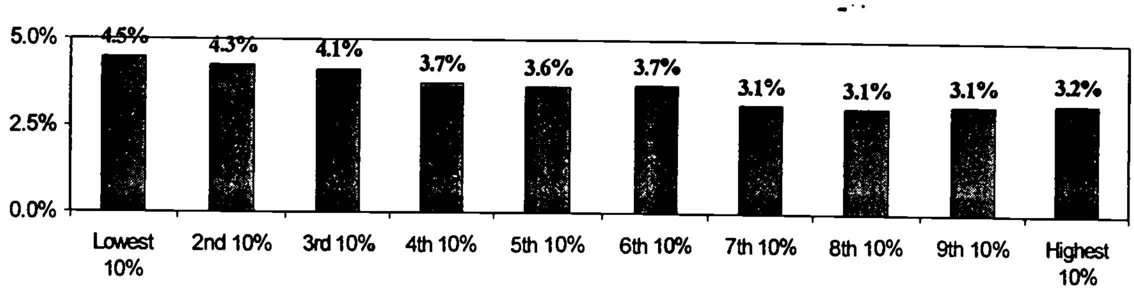
As Table 1 shows, Indiana's school funding formula demonstrates vertical equity, the unequal treatment of unequals. The table compares two funding received by two groups of students in the state – minority students and poor students (those students who qualify for a free or reduced lunch) – to their White and non-poor counterparts. On average, minority and poor students are being educated by school corporations that are receiving more money than are the corporations educating White and non-poor students. In terms of current school finance litigation, this is a very important finding.

Table 1
Differences Between Groups of Students in
Regular Education Revenue Per Student
(An increase is an improvement in vertical equity)



Indiana's school funding formula is also moving towards horizontal equity – the idea of treating equals equally. As Table 2 demonstrates, the largest share of the 10% revenue increase is going to the lowest revenue school corporations. These relatively poor corporations are receiving an annual average revenue increase that is double the 2.2% rate of inflation during this period. As you move to the right on Table 2 – towards the relatively wealthy school corporations -- the rate of increase declines. The ability of the Indiana school funding formula to make the distribution of revenue across school corporations more equal while the formula is simultaneously disequalizing revenue in favor of poor and minority students is a vital strength.

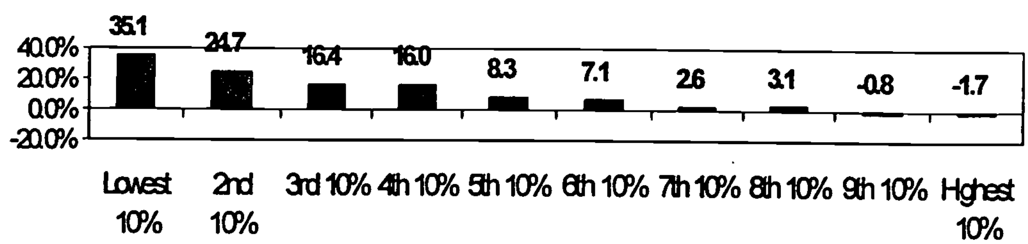
Table 2
Regular Education Revenue Per Student Increase
from 1993-1999
by Decile



Note: School Corporations Sorted by 1993 Per Student Revenue

Prior to 1994, general fund property tax rates varied widely across school corporations in Indiana with high-rate corporations paying more than double the rate of low-rate corporations. This issue of taxpayer inequity lay at the heart of the lawsuit that challenged the constitutionality of the state's previous school funding system (*Lake Central et al. v. State of Indiana et al.*, 1987). As Table 3 shows, the post-1993 formula dramatically increases rates in very-low rate school corporations. As a result, property tax rates will be substantially more equal in 1999, especially on the bottom end.

Table 3
General Fund Property Tax Rate Increase from 1993 to 1999
by Decile

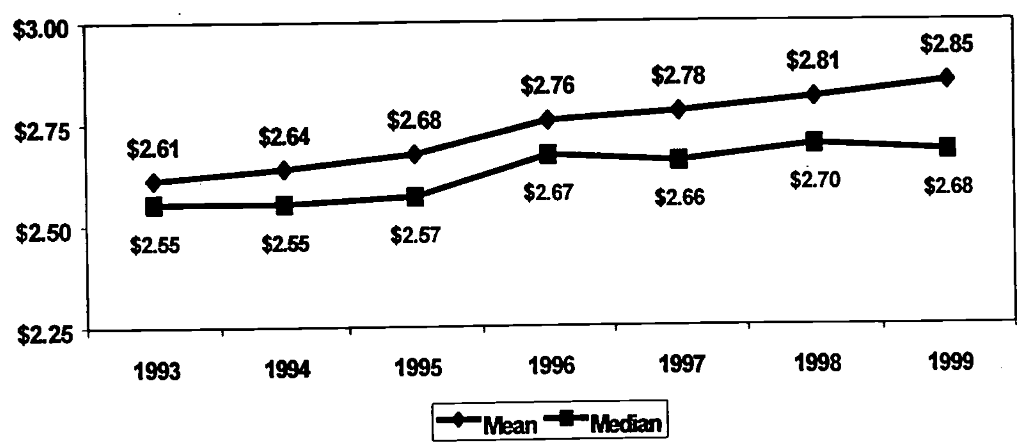


School Corporations Sorted by 1993 General Fund Property Tax Rates

Weaknesses of the Indiana School Funding System

The Indiana school funding formula has generated higher average general fund tax rates in each year from 1993 and 1999. In 1999, school corporations in Indiana levy general fund property tax rates that average $2.85 per $100 AV, a 9.1% increase since 1993 (see Table 4). The median property tax rate, though, remains relatively unchanged from year to year, with the exception of 1996 when it jumped 4%. The reason for this disparity in the trends for the mean and median tax rates is that the huge rate increases in the low-rate corporations pushes up the average but have much less effect on the median. In addition, for the 1997-99 biennium, it is important to recognize that nearly half of the 7 cent rate increase is created by the state's assessment ratio adjustment factor and therefore is driven by local assessment practices that lie outside the school funding formula itself.

Table 4
General Fund Property Tax Rates
per $100 Reassessed Property Values
1993 to 1999



Criteria for Judging Impact of Eliminating Property Tax

This section seeks to put forward for discussion a set of criteria that policy makers can use in assessing the impact of replacing the property tax with an alternative revenue source – regardless whether it is a sales tax, an income tax, or some combination of the two.

The first issue relates to how robust the sales or income tax is, with particular emphasis on its stability. The property tax is a very stable source of revenue -- it produces a consistent revenue stream in good and bad economic times. One of the realities of school finance is that, in the short term at least, the demand for school services do not fall with dips in the economy – in fact, they tend to increase. Thus, the stability of any proposed alternative is a crucial issue.

Criteria 1: Will the alternative revenue source(s) provide all school corporations with sufficient revenue to achieve state educational goals?

Findings About the Post-1993 Indiana School Funding Formula	Issues with Alternative Revenue Source(s)
The formula provides increasing per student revenue, with the 1997 per student revenue level being slightly above the national average.	Would income or sales taxes provide sufficient revenue to Indiana's schools, especially during economic downturns?
The formula distributes more revenue to minority and poor students.	Should the Indiana School Funding Formula ensure that minority and poor students continue to receive a greater share of these alternative revenue sources?
The formula is equalizing per student revenue.	How would a shift from the property tax to the income or sales tax affect the formula's ability to continue the progress Indiana has made since 1993 in equalizing per student revenue?

The second issue relates to the earlier finding that poor and minority students receive a disproportionately large share of current revenue – should this continue to be the case if we revamp the tax structure? Along with this disequalization for poor and minority students, the formula is equalizing revenue across school corporations – how would a new formula affect our ability to continue this equalization trend?

Criteria 2: Will the alternative revenue source(s) allocate responsibility for school funding equitably between the state and local school corporations?

Findings About the Post-1993 Indiana School Funding Formula	Issues with Alternative Revenue Source(s)
The formula provides a 2-to-1 state-to-local instructional revenue share.	Do traditions of local control require some minimum local share of school revenue?
The formula provides a 1997 state share that is slightly above the national average.	How would a shift from the property tax to the income or sales tax affect Indiana's ability to stay above the national average in state revenue share?

The major issue with regard to Criteria 2 is the impact of any tax restructuring on traditional notions of local control of K-12 education by school boards elected by, and accountable to, local tax payers. Do these traditions require some minimum local involvement in financing these schools?

Will shifting from the property tax to the income or sales tax allow us to halt the increase in locally raised taxes for schools? Currently, although the formula has succeeded in bringing up rates at the bottom, urban and suburban corporations still pay rates well above the state average. How would a shift to an alternative revenue source affect these relative tax burdens? Finally, what makes the Indiana formula unique is that while it permits differences in revenue per student, it matches tax rates to those differences so that higher revenue corporations pay higher rates while lower revenue corporations pay lower rates. Could a revised formula match local tax effort to local per-student revenue levels in this manner?

Criteria 3: Will the alternative revenue source(s) improve taxpayer equity?

Findings About the Post-1993 Indiana School Funding Formula	Issues with Alternative Revenue Source(s)
The formula generates higher average general fund property tax rates.	Would a shift from the property tax to the income or sales tax allow Indiana to halt the increase in locally raised taxes for schools?
The formula brought property tax rates in very low rate school corporations closer to those prevailing in rest of state. Yet, the formula still generates 20% higher rates in urban school corporations than prevail in rest of state.	How would a shift from the property tax to the income or sales tax affect tax burdens in different types of Indiana school corporations?
The formula permits differences in revenue per student but matches tax rates to those differences.	Could a revised formula match local tax effort to local per-student revenue levels?

Conclusion

The property tax is very unpopular in Indiana. While taxpayer opposition is engendered by a variety of factors -- including fairness problems due to assessment practices, local differences in property wealth, and the regressive nature of the property tax for low-income Hoosiers -- the highly visible collection method contributes greatly to the perception that the tax is onerous. Property taxpayers in Indiana receive one tax notice per year; sales and income taxes are paid in a large number of small, and nearly much less visible, transactions.

If the property tax is to survive as a primary source of school revenue in Indiana, supporters must highlight its strengths -- it is a highly stable source of revenue that helps school corporations anticipate future tax revenue, it produces new revenue as additional homes are built, and it is hard to avoid. Yet, these supporters must also address how (1) property tax payments can be more closely related to the flow of cash into the household, (2) the state can soften the impact of taxes levied on unrealized capital gains, and (3) the dramatic increase in taxes that often follows in the wake of a mass property reassessments can be lessened.

KANSAS

Full State Control Out of Control: School Finance in Kansas in the 1990s

Bruce Baker
University of Kansas

Introduction

Kansas school finance since the 1992 implementation of the School District Finance/Quality Performance Accreditation Act has been plagued by three key issues:

Issue 1: Chronic under-funding of the state's foundation aid per pupil
Issue 2: Tax cuts and eroding taxpayer equity
Issue 3: Political erosion of a seemingly logical basic formula for achieving equity

The analyses that follow detail how the Kansas legislature has (a) fallen as much as 28% behind estimates of desired spending since implementing the current funding formula in 1992 (b) reduced statewide school property tax rates by 43% (from 35 to 20 mills) since 1996-97, leading to a 49% (range ratio change from 2.31 to 3.44) increase in tax rate disparities and (c) created a convoluted pupil weighting system that allows the legislature to return state aid dollars to the property wealthy districts that spent significantly more prior to litigation, continuing to disadvantage those districts that sued the state to begin with. Perhaps the most intriguing aspect of the analyses is that Kansas has created a system that by assessment of the data on district wealth characteristics and spending behavior alone resembles predominantly locally controlled systems. Yet, the Kansas legislature has managed to create these patterns within a framework of *full state control.*

Historical Perspective

Through 1991, four separate lawsuits accounting for 42 of the state's 304 districts had piled up on the desk of Supreme Court justice Terry Bullock. As noted by Bullock "... each district wanted us to look at only one part of the plan for financing education in Kansas and to strike down just one small part which would, coincidentally, I'm sure, benefit only their particular district." [1] Until this time, Kansas school districts were functioning under a chronically underfunded guaranteed tax base formula resulting in vast wealth-related disparities in fiscal resources. Preferring not to consider each of these limited suits individually, Bullock chose instead to consolidate the lawsuits into the case known as *Mock v. Kansas* and to organize the arguments of the plaintiffs into three sweeping constitutional claims: that the School District Equalization Act (SDEA) violated the education article of the Kansas constitution, that SDEA violated the equal protection clauses of the Kansas and

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[1] "Then and Now," speech delivered by Judge Bullock at the Jayhawker club, March 29. 1995. Quoted in Charles Berger, "Equity Without Adjudication: Kansas School Finance Reform and the 1992 School District Finance and Quality Performance Act," *Journal of Law and Education* 27 (1998): 2

United States constitutions, and that the system of taxation used to fund SDEA violated the uniform laws clause of the Kansas constitution. [2]

Rather than pursue a lengthy trial, Bullock orchestrated a settlement via a "finance summit" involving the parties involved in the suit, legislative leaders, the governor and outside consultants. In conjunction with the summit, Bullock issued an opinion titled "Opinion of the Court on Questions of Law Presented in Advance of Trial." The opinion provided an outline both to the legislature and to the public at large of the constitutional requirements for the financing of education in Kansas. The main points of these requirements are: (1) that the state (as opposed to local school districts) has an obligation under its constitution owed directly to each child to provide the child with an education; (2) that the education provided to each child must be at least minimally adequate; (3) that each child must receive an educational opportunity equal to that given to every other child in the state; (4) that it is educational opportunity and not necessarily spending that is to be equalized; and, therefore, (5) that any disparities in per pupil funding and expenditures must be justified by a "rational education explanation."[3]

Current Formula – SDF/QPA

In response to Bullock's request, the legislature, in conjunction with the state department of education and external consultants created the School District Finance and Quality Performance Act of 1992. The School District Finance Act essentially involved a full state takeover of education funding. The two-tier formula involved a statewide base property tax rate of 32 mills (applied to 11.5% assessed valuation) to raise revenues toward funding a uniform first tier foundation level of $3,600 per weighted pupil. It was planned that the mill levy would be increased to 35 mills over the following few years, and it was by 1993 – 94. The second tier, referred to as the Local Option Budget (LOB), perceived by some as a political concession to wealthy suburban districts surrounding Kansas City, was designed as a guaranteed tax base formula with the guaranteed wealth set at the 75%ile district level. Second tier revenues were capped at a 25% increase to the general fund budget, or the $3,600 per weighted pupil. Like other state funding formulas, a variety of adjustments/weightings were applied to compensate for differing numbers of bilingual, at-risk and vocational students and to compensate for varying economies of scale. These weightings will be discussed later in more detail.

Condition and Outcomes of the Formula

Issue 1: Chronic Under-funding

In the fall of 1999, the state legislature announced that they had come up quite short on their revenue projections for the current fiscal year. Questions remain as to whether the shortfall is a result of mismanagement, including lost income tax returns (accidentally shredded) in the revenue department, or simply a result of inaccurate estimates and years of legislative preference for tax cuts over spending increases. What does this mean for public

[2] *Mock v. Kansas*, No. 91-CV-1009 (Shawnee County Dist. Ct. 1991), at 2.

[3] *Mock v. Kansas*, at 20-23.

schools in Kansas? The present recommendation is for a $31 per pupil reduction in general state aid for the current school year.

Kansas certainly does not own exclusive rights to this type of dilemma. Yet, given the structure of the Kansas funding formula, state revenue shortfalls are particularly problematic. Within a usual foundation aid program or even tax base equalization program, districts would still retain the right to make up their losses with increased local taxes. Yet, in Kansas, districts are only afforded the opportunity to increase their base aid by an additional 25%. What happens if, over time, the state falls more than 25% behind what would be considered *adequate* levels of spending? Though equity is indeed a noble goal, one might question the ethics of achieving statistical equity of dollar inputs to education by disallowing districts to attain adequacy.

Kansas Foundation Aid per Weighted[4] Pupil

Table 1 shows that the current year dilemma is not out of line with annual legislative practice since the implementation of SDF/QPA in 1992. In fact, the current year dilemma is problematic largely as a result of the legislature falling farther and farther behind on target spending each year of SDF/QPA.

Table 1[5]

Kansas Foundation Aid per Weighted(a) Pupil Compared with Growth Benchmarks

Year	Actual	National Adj (CPI)(a)	KS %Under	Regional Adjusted (CPI)(a)	KS %Under	Education Spending Adjusted(b)	KS %Under
1992	$3,600						
1993	$3,600	$3,708	3%	$3,702	3%	$3,708	3%
1994	$3,600	$3,819	6%	$3,807	6%	$ 3,830	6%
1995	$3,626	$3,917	8%	$3,895	7%	$3,976	10%
1996	$3,648	$4,028	10%	$4,005	10%	$4,145	14%
1997	$3,670	$4,146	13%	$4,179	14%	$4,356	19%
1998	$3,720	$4,242	14%	$4,294	15%	$4,580	23%
1999	$3,770	$4,308	14%	$4,350	15%	$4,776	27%
1999*	$3,739	$4,308	15%	$4,350	16%	$4,776	28%

(a) Source: www.bls.gov (CPI-U)
(b) Education Spending Adjusted is based on the average rates of change of Nationally aggregated data on per pupil expenditures (not average level of national per pupil spending which is considerably higher). Average rates of change were computed from William Hussar and Debra Gerald. *Projections of Education Statistics to 2009*. National Center for Education Statistics (Washington, DC: U.S. Department of

4 Weighted Pupils as described in the formula overview. To be dissected in detail in later sections.

5 A questionably fair aspect of this comparison is that the base state aid per weighted pupil in Kansas does not truly represent per pupil spending. As will be seen in following sections, per actual pupil spending in Kansas is higher than per weighted pupil spending. Yet the above table does reasonably reflect the extent to which Kansas is keeping pace (rate of change) with cost of living and education spending estimates.

Education, 1999). Because Hussar and Gerald report only preliminary estimates for 1999 expenditures, their "trend" or middle scenario is used.

Using national education spending rates of change reported in the annual *Projections of Education Statisics*[6], even if the legislature met their "generous" spending goal of a $50 per weighted pupil increase (1.5%) in base aid for 1999-2000, they would still have been 27% behind target spending. This estimate presumes that the original $3,600 per weighted pupil accurately reflected the cost of education in 1992, which itself is debatable. Arguably, Kansas currently caps districts to a maximum allowable budget that is below a standard of adequacy.

It's the Economy Stupid! Or perhaps not?

Typically, revenue shortfalls and lagging foundation aid growth result from a generally weak economic climate. Research by Baker and Richards (1999) shows that nationally, education spending is most responsive to and consistently responsive to measures of per capita income, with prior year income and prior year growth in income serving as excellent predictors of current year education revenues.[7] Nationally, a 1% increase in income typically yields a 0.55% increase in education spending.[8] This pattern is exemplified by the slow-down in national education spending growth from 1991 to 1993, coupled with the national slow-down in income growth of the early 1990s recession.

Table 2
Summary and Forecast of Kansas Economic Indicators

	1996	1997	1998	1999	2000	
Labor Force		1339.5	1366.3	1410.7	1460.9	1502.4
Percent Change		0.5	2	3.2	3.6	2.8
Employment		1279.1	1314.8	1356.6	1409.2	1448.2
Percent Change		0.4	2.8	3.2	3.9	2.8
Unemployment Rate		4.5	3.8	3.8	3.5	3.6
Nonfarm Wage & Salary Emp.		1228.2	1268.3	1312.2	1351.2	1389.1
Percent Change		2.5	3.3	3.5	3	2.8
Nom. Personal Income		58689.3	62362.8	65676	69284.5	72924.6
Percent Change		6.1	6.3	5.3	5.5	5.3

Source: Kansas Econometric Model, IPPBR, University of Kansas. Percent change is the percent change from the previous year. Labor Force and Employment in thousands. Personal income in millions of current dollars.

[6] Hussar, W. & Gerald, D. *Projections of Education Statistics to 2009*. National Center for Education Statistics. (Washington, DC: U.S. Department of Education, 1999).

[7] Bruce D. Baker and Craig E. Richards. A comparison of conventional linear regression methods and neural network methods for forecasting educational spending. *Economics of Education Review*. 18 (4) 1999. 405-416.

[8] This figure is based on statistical estimates of the relationship between national aggregate per capita income and national average per pupil spending for a thirty year period. While other estimates may vary, and this estimate may vary dependent upon the years in the sample, the relationship tends to remain strong. See Baker and Richards, 1999, p. 409.

Thus, we would presume some linkage with Kansas legislative spending practices and the state of the Kansas economy. Table 2 would suggest otherwise. Personal income in Kansas continues to grow and is projected to grow at an annual rate exceeding 5%. Unemployment continues to decline to levels below the perceived level of "full employment." Applying the previously discussed relationship (elasticity) between income and spending would suggest that education spending in Kansas in response to the Kansas economy would be growing at a rate of 2.75% (0.55*6%) to 3.3% (0.55*5%) per year. Recall that the legislature perceived a 1.5% increase for 1999-2000 to be generous and is now recanting on even that promise.

Issue 2: Tax Cuts and Eroding Taxpayer equity

One of driving forces of revenue shortfalls has been legislative propensity for tax cuts over additional spending. While one outcome of these cuts is the current revenue predicament, yet another outcome of frequent cuts to the base required local mill levy is the erosion of taxpayer equity in the state. The stated intent of the legislature in the original version of SDF/QPA was that the base required mill levy would start at 32 mills in 1992, climb to 35 mills and be held at that level to insure support for general fund aid. Note that even the 35 mills, applied to 11.5% assessed valuation would raise less than 1/3 the revenues required for the general fund. Table 3 shows the maximum and minimum school mill levies for select years since implementing SDF/QPA. Indeed, prior to 1992, tax equity was quite dismal, with a range ratio of 7.53. Immediately upon implementing SDF/QPA that range ratio dropped to 2.47. Since that time, largely as a result of reductions to the minimum tax levy, the range ratio has climbed. Given the structure of the Kansas formula for the general fund, property tax relief merely reduces the share of general fund revenues coming from property taxes, increasing the share from sales and income taxes, which are subject to greater intergovernmental competition.

Table 3
Maximum and Minimum School Mill Levies for Selected Years

Year	Minimum	Maximum	Range Ratio
1991-92[a]	15	113	6.53
1992-93	32	79	1.47
1996-97	35	81	1.31
1998-99	27	80	1.96
1999-00	20	69	2.45

Data Source: Millcounty99.txt @ http://www.ksbe.state.ks.us/leaf/milllevy.html (a) Previous GTB formula

In designing SDF/QPA, the legislature and their consultants primarily considered taxpayer equity with respect to the general and supplemental fund revenues, as previously discussed, using a GTB-type formula for supplemental fund revenues. Some support is provided to offset facilities construction (Bond and Interest) costs on a sliding scale (15 to 35%) according to property wealth. Table 4 displays a breakout of additional mill levies for districts with the highest cumulative school mill levies. Several districts currently impose LOB mill levies in excess of the required base mill levy and several others currently impose bond mill levies in excess of the current required base mill levy, leading to the current range ratio of maximum to minimum cumulative school mill levy of 3.44.

Tax rates tend to be highest in (a) fast growing districts in need of bond revenue to construct new facilities and (b) other large suburban to urban Kansas City, Topeka or Wichita area districts attempting to use the Local Option Budget in an effort to achieve adequacy levels of spending. Table 3 displays the top 21 (of 305) districts in total school mill levy from 1999.[9] Five of the top six districts in cumulative mill levy are Johnson County districts experiencing dramatic suburban sprawl south and west of Kansas City, Missouri. One might suggest that these districts have these mill levies by choice. They are perceived as wealthy and highly supportive of public education. This may indeed be true. Yet, one Johnson County district, similarly perceived as wealthy and supportive of education is not on this list, Shawnee Mission USD (Ranked 84th). How is Shawnee Mission USD different from the others in the top six? Though there are indeed many differences, the primary relevant difference in this case is that Shawnee Mission USD is geographically surrounded by Blue Valley (ranked 2nd), Olathe (ranked 5th) and Wyandotte County districts, and is currently growth constrained. Thus, the primary rationale for differential tax effort in this case is geography, a rationale that would be questionably acceptable in equity litigation.

Four other districts in the top twenty-one are Wyandotte county districts. These districts are also in the Kansas City area. Some, like Bonner Springs (ranked 7th) are experiencing similar suburban sprawl to the Johnson county districts. While others like Turner and Kansas City, Kansas school district are more urban districts arguably simply trying to use the extra mills of a local option budget to meet the cost of serving their increasingly diverse student populations.

Table 5
Average Mill Levies by Category and District Geographic Type

	State	Major Urban[(a)]	Other KC Metro[(b)]
General	20.0	20.0	20.0
LOB	8.1	17.1	18.6
Capital	3.4	3.7	4.0
Bond	5.4	2.8	16.0
TOTAL	37.0	46.7	59.6

Data Source: Millcounty99.txt @ http://www.ksbe.state.ks.us/leaf/milllevy.html
(a) Wichita (USD 259), Topeka (USD 501), Kansas City, KS (USD 500)
(b) Johnson County: Shawnee Mission (USD 512), Blue Valley (USD 229), Desoto (USD 232), Gardner-Edgerton (USD 231), Olathe (USD 233), Spring Hill (USD 230); Wyandotte County: Turner (USD 202), Piper (USD 203), Bonner Springs (USD 204)

Indeed the current version of SDF/QPA does not entirely ignore growth-impacted districts, nor does it entirely ignore those more urban districts trying to cope with higher

[9] Admittedly, 21 were selected so as to include the position of Kansas City, KS (ranked 21st). The basic point of this table, however is quite simply, that no matter where you chose to cut off the rankings, Urban and suburban school districts tend to be among the highest ranked in cumulative tax rates.

education costs. Recall that a pupil weighting of 9% is applied for students filing for free and reduced lunch. And, as noted earlier, the formula does include some property wealth equalized state aid to offset bond and interest payments.[10] In addition, growth impacted districts are compensated by a ludicrous method of providing an additional 25% base state aid per pupil for each pupil attending a new facility.[11] Why is this approach ludicrous? This policy encourages districts to pack new facilities with students the year they are opened, often leaving empty classrooms behind. In districts growing so rapidly that new buildings are constructed every two to three years, attendance boundaries can be continuously redrawn to take advantage of this policy. Over the course of 6 years of elementary school, a child may be asked to attend three separate new schools simply in order to generate more funding for the district. Held in the same school, this student is worth approximately $22,620 over six years at constant base aid, disregarding inflation (6 * $3,770), but if moved every two years, the student can be worth $28,275. That is, an additional 25%, or an additional $5,565, or more than enough to pay one additional year of education for one additional student.

To summarize the current state of taxpayer equity and the underlying causes of erosion, it is clear that:

(a) Cuts to the base mill levy, though uniformly applied, have aided in creating taxpayer inequities because of increased need to use supplemental mill levies to raise adequate supplemental general funds and facilities funds.

(b) Additional support provided by the new facility weighting, though it may be manipulated at the local level for gains, does not adequately compensate growth impacted school districts for the costs of constructing new facilities, as evidenced by the continued high mill levy rates of growth impacted districts.

(c) Additional support provided by the current at-risk weighting does not adequately compensate lower socioeconomic status urban districts as evidenced by their continued need to use the local option budget, even where their property wealth per pupil lags behind state averages.

Issue 3: Erosion of Logic - The Politics of Pupil Weightings

Equity and neutrality measures per weighted and actual pupils

As evidenced in the discussion of methods for compensating high growth districts and urban districts, the Kansas legislature has a political preference for pupil weighting systems for adjusting state aid to schools. Frequently, this political preference for pupil weightings supercedes any possible rationale for using this particular method of resource allocation.

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[10] For bond or interest obligations assumed after July 1, 1992, the state will pay as much as 35% to the poorest districts, 25% at the median estimated wealth, and 15% at assessed valuation per pupil of 40,487. KLRD, Formula for Computing General State Aid, Attachment II.

[11] KLRD, Formula for Computing General State Aid, p. 12.

From 1992 to 1996, the Kansas legislature managed to give birth to 101,036 imaginary pupils or an additional 23% to the states total pupil population by way of pupil weightings. These students are "less-than-randomly" assigned to school districts solely for purposes of differentiated funding. These imaginary pupils are a result of the combined At-Risk, LEP, Vocational, Low Enrollment and Correlation Weightings discussed earlier.

It is reasonable to believe that such weighting systems can be used to create vertical equity. That is, differentiate between the average costs per pupil of a school district with large numbers of At-Risk and LEP students and a school district with much smaller numbers of such students. Yet, such systems can become problematic when it becomes difficult to simply discern how many actual pupils there are in a particular school or district and how many resources are actually being allocated to those real pupils.

Table 6 displays equity statistics per weighted (real + imaginary) and per actual pupil. The numbers paint a significantly different equity picture with respect to pupil count. On the positive side, mean spending per actual pupil (as a result of redistributing the aid allocated to imaginary pupils across actual pupils) is much higher than mean spending per weighted pupil. However, the variance and Gini Coefficient for spending per actual pupil are each quite high. Indeed, if rationally related to cost differences, the variance (16.28%) in spending per actual pupil may be considered appropriate. That appropriateness rests on our ability to accept the legislature's allocation of weighted pupils as rational, rather than political.

Table 6
Equity per Weighted and Actual Pupil, 1996-1997

	Weighted Pupils	Actual Pupils
Pupil Count	547,798	446,762
Mean Spending (Unit=Pupil)	$4,012	$4,919
Standard Deviation	$381	$801
Coefficient of Variation (CV)	9.48%	16.28%
Gini Coefficient	0.27	0.61

Data Source: Kansas Legislative Research Department School Finance Data, "General and Supplemental Fund Data by School District"

Table 7 displays the neutrality measures for property wealth per pupil and spending per actual and weighted pupil for 1996-'97. In addition, Table 7 displays wealth neutrality as existed prior to SDF/QPA, under the funding system declared unacceptable by State Supreme Court Justice Terrence Bullock. The neutrality of spending per actual pupil and district property wealth is closer to previous unacceptable levels, as declared by Bullock, than currently fabricated levels, as measured in terms of weighted pupils.

What is so perplexing about these results is that they suggest the distribution of imaginary pupils directly advantages property wealthy districts. Recall that the funding program in '91-'92 was primarily fueled by local revenues and local voter choice to spending on education, yielding the common *de facto* result of property wealthy districts spending more on education than property poor districts. Thus, the results in Table 5 for 1991-'92 are not surprising. Yet, since 1992, the Kansas legislature has assumed full control over the allocation of funds for public schools. Thus, the current lack of neutrality is *by design*, not by circumstance. In short, the Kansas legislature has discovered a way to *give more money directly to property wealthy school districts*. Like the aforementioned variance in spending, such a policy might be reasonable if it can be determined that these districts indeed have justifiably different per pupil costs. That is, kids in property wealthy districts are more expensive to educate.

Table 7
Neutrality per Weighted and Actual Pupil[(a)]

	Correlation[(b)]	Slope[(c)]	Elasticity of Spending on Property Wealth per Pupil[(d)]
Spending per Weighted Pupil '96-97	0.28	0.08	0.10
Spending per Actual Pupil '96-97	0.63	0.40	0.12
Spending per Actual Pupil '91-92	0.70	0.49	0.19

(a) Excluding extremely high property wealth (pvpp>100k, =16) districts
(b) district unit of analysis
(c) district unit of analysis
(d) pupil unit of analysis (pupil weighted analysis)

The Politically Desirable Outcomes of Statistical Ignorance

Was there truly devious intent and subversive political manipulation that led to the design of such a formula, or was it simply that a politically desirable outcome emerged from the mathematical ignorance of the parties involved in designing the formula? Perhaps to suggest devious intent would be to give the legislature and other parties involved too much credit. Thus, this author is willing to accept the *ignorance is bliss* hypothesis. Earlier work by Baker and Imber (1999) identified two key features of the formula that contribute to erosion of fiscal neutrality.[12] The first, more obvious feature, is the local option budget, which allows districts to increase their general fund by 25%. Though set up as a GTB, Johnston and Duncombe (1999) as well as Baker and Imber (1999) have shown that wealthier districts remain significantly more likely to take advantage of the LOB.[13] A less obvious culprit identified by Baker and Imber is the low enrollment weighting system intended to help small school districts compensate for diseconomies of scale.

As previously discussed, the low enrollment weighting compensates a district of 300 pupils at 158% of the base state aid and a district of 100 pupils at 214% of the base state aid.

[12]Bruce D. Baker and Michael Imber, Rational Educational Explanation or Politics as Usual? Evaluating the Outcome of School Finance Litigation in Kansas. *Journal of Education Finance* 25 (1), 1999: 121-139.

[13] Johnston and Duncombe (p. 152) also found statistically significant differences in Median Household Incomes: LOB Districts, $25,505; Non-LOB Districts, $23,914.

Unlike other pupil level weightings, this weighting is multiplied by all students in a district, magnifying its effect relative to pupil weights like At-risk or LEP, which are multiplied by only those students counted in the select category. It is certainly reasonable to expect unit costs (cost per pupil) of a very small school to be much higher than those of a larger school and a body of literature does exist to support this claim.[14] The critical question is, How did the Kansas legislature arrive at the seemingly astounding figures of 158% and 214%? Herein lies the explanation for the *ignorance is bliss* hypothesis.

Consultants to the Kansas legislature concocted a rather straight-forward, but critically flawed, method for determining the differential costs per pupil of small schools. In brief, they lumped schools together into three categories (a) 75 - 125 (midpoint=100) (b) 200 - 400 (midpoint=300) and (c) approximately 1800. They then took the average per pupil spending of each group and used it to construct the weighting scheme, drawing angled lines and figuring the slope between the midpoint of each group. The result, the cost per pupil in the 75 - 125 category, $7,337, in the 200 to 400 category, $5,406 and in the 1,800 group, $3,550.

How can such a straightforward method be "critically flawed?" As noted by Baker and Imber (1999), the problem lies in the fact that the very small districts of the 75 to 125 and 200 to 400 categories also happen to include a disproportionate number of extremely property wealthy districts. Thus, leading to the question: Did these districts spend so much more in 1991-92 because they had to as small districts, or simply because they were wealthy enough to spend so much more, even with relatively low tax effort?

Table 8
Data Used to Derive the Low Enrollment Weighting, 1991 - 1992

	Assessed Property Value per Pupil	Revenues Per Pupil
Enrollment <300	$66,914	$7,512
Enrollment >1800	$25,157	$4,594
Range Ratio	1.67	0.66

Data courtesy Jocelyn Johnston, School of Public Administration, University of Kansas. Analysis performed by author.

Table 8 displays a simplified version of Baker and Imber's earlier analysis, validating that the smallest districts in Kansas in 1991-'92 possessed far greater average property wealth than the largest districts, and, as one might expect in an under-funded GTB-type program, far outspent their larger counterparts. In short, Kansas has created, in name, a Low Enrollment

[14] See Gerald R. Bass "Financing for Small Schools: A Study," *Rural Educator*, 9 (1998): 9-14; James Guthrie et al., "A Proposed Cost-Based Block Grant", <http://legisweb.state.wy.us/school/cost/final/final.htm>, April 1997; Austin Swanson "The Matter of Size: A Review of the Research on Relationships between School and District Size, Pupil Achievement and Cost," *Research in Rural Education*, 5 (1988): 1-8; David Wiles, "Economies of Scales and Smallness Policy in School Organization: Comparisons of New York State's Smallest K-12 Districts," Paper presented at the University Council on Educational Administration, Baltimore, MD, 1991.

or economies of scale weighting, that is largely a Property Wealth weighting. This particular pupil weighting conveniently allowed the Kansas legislature to appease politically powerful constituencies in the wake of formula redesign, warding off threats of secession by a handful of towns in the Southwestern part of the state.

An interesting confounding issue is that the 25% cap on the LOB allows small/property wealthy districts receiving nearly $8,000 per actual pupil in base state aid to raise an additional $2,000 per actual pupil in supplemental funds, which many of them, of course, have the capacity to do. Larger districts receiving less than $4,000 per actual pupil in base state aid are limited to an additional $1,000 per actual pupil in supplemental funds. Thus, the state has designed a system that allows them to both give more money directly to property wealthy small rural districts and to afford those districts greater opportunity to supplement their revenues. Table 7 displays the 1996-97 average general plus supplemental fund budgets by enrollment category. Recall also that the state adjusts LOB budget authority to allow districts below their enrollment group average to catch up, creating a ratcheting upward effect of spending in the highest spending/lowest enrollment districts.

Table 8
1996-97 Average GFB+LOB per Actual Pupil by Enrollment Group

Enrollment Group	Average GFB+LOB per Actual Pupil
75-125	$9,326
200-400	$6,541
1,800	$4,549

Pending Litigation

Traditional finance litigation has been rendered somewhat ineffective by the peculiarities of SDF/QPA. Yet pending litigation filed in 1999 seeks to pursue a variant of conventional litigation by focusing on the extent to which the current system has "an adverse impact on racial and ethnic minorities in violation of Title VI of the Civil Rights Act of 1964."[15] Accepting the analyses herein that clearly display that the state has directly advantaged property wealthy rural districts without appropriate rationale, and realizing that resources are finite, it must be true that other districts are disadvantaged. Among those districts are urban districts with higher minority representation, yet they are not exclusively disadvantaged by the differentiated allocations of general fund aid. Perhaps the necessary linkage lies in the fact that many of the urban districts are not only disadvantaged in aid allocations, but as a result have been backed into increasing local taxes (as validated in Table 4) despite low capacity simply to meet the needs of their diverse populations.

[15] See David Long. Introduction to Finance Equity Litigation. Education Finance Statistics Center. National Center for Education Statistics. (Washington, DC: U.S. Department of Education) http://nces.ed.gov/edfin/Litigation/Introduction.asp#NDD

Conclusions

Clearly the time has come again for Kansas to rethink its approach to funding public education. At this critical juncture the legislature must first consider whether they are truly willing to accept the responsibility of fully controlling education spending. If not, the legislature must look to alternate basic frameworks for funding education that involve greater local control and more creative mechanisms for revenue sharing among districts. If the legislature wishes to continue its controlling role, they must first dedicate themselves to finding adequate funding on a consistent yearly basis, suppressing their desire for annual tax cuts. Then, the legislature must focus attention on ways to better account for increasing tax disparities and must set politics aside in an effort to derive measures of differentiated funding that, in keeping with Terry Bullock's original request are supported by a "rational educational explanation."

KENTUCKY

Kentucky: A Decade Since Rose

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In 1989, the Kentucky Supreme Court reported its decision in Rose v. Council for Basic Education, Inc. (1989). This judgment launched what observers and practitioners now recognize as a decade and more of systemic education reform for the Commonwealth and a laboratory of education policy changes for the nation. In 1999, policy makers, educators, parents, business leaders, and citizens marked the 10th anniversary of the Rose decision. While the significance of a decade may be only symbolic, it does inspire reflection on Kentucky's progress and the Commonwealth's contribution to school reform debates nationwide.

In the high court's hands, a traditional equity challenge grew to encompass the whole range of elementary and secondary programs, inspiring reform of school finance but also of education governance and curriculum, the combination conceived broadly and legally to include all the parts and parcels of the Commonwealth's K-12 system. The story is well known (see, for example, Adams, 1993). The supreme court said, in effect, start over, and, remarkably, the General Assembly did. Their efforts resulted in the Kentucky Education Reform Act of 1990 (KERA).

Assessing the General Assembly's education finance and improvement policies requires a broad perspective on reform, call it finance-plus. For the past few years, this space in the Fiscal Issues, Policy, and Education Finance Proceedings has been used to update developments in Kentucky school finance. While the annual update is important, it is equally important this year to reinforce the interrelatedness of finance with governance and curricular changes, to remember that legislators designed Kentucky's school finance reform as one strand in a tapestry of education improvements. Kentucky policy makers intended school finance reform to improve distributional equity but also to support improvements in student achievement, hence, finance-plus. Therefore, as policy makers, practitioners, researchers, and citizens seriously begin to assess the progress and promise of Kentucky's education reform, the interconnectedness of reform strands provides the necessary backdrop for their efforts. So along with the usual update, this space will briefly recount the broader state efforts that school finance reform supports.

School Finance: Stable, Successful Reform

Kentucky's school finance policy consists of three basic elements: (1) a foundation program with optional guaranteed tax base and local revenue components known as Support Education Excellence in Kentucky or SEEK; (2) equalized funding for capital construction, known as the Facilities Support Program in Kentucky (FSPK); and (3) categorical programs funding professional development, extended school services, preschool, technology, family resource and youth service centers, and other supporting endeavors.

Two points are important here. First, while the state struggles to fully fund all the components of the finance program (for example, preschool is consistently underfunded), and while policy makers continue to debate issues such as skill-based professional compensation and inclusion of categorical programs in the formula, the structure of school finance policy has been constant since 1990. Other areas of reform--assessment, accountability, and primary programs, for example--have undergone changes during the same period. Second, under these stable finance policies, support for K-12 education has increased and equity has improved, satisfying two major goals of the high court and legislature. Stability and equity improvements both indicate a measure of policy success.

Changes in Revenue

According to the Office of Education Accountability (1998), from 1989-90 to 1997-98, total state and local support for K-12 education in the Commonwealth jumped from roughly $2 billion to $3.4 billion, an increase of 70%. Of the total increase, state revenue rose by 60% ($937 million) and local revenue by almost 109% ($483 million). In per-pupil terms, this change translates into a mean increase in state-local support from $3,161 to $5,306 (1996-97). Formula support jumped from a mean of $2,891 in current dollars or $3,565 in (1997-98) constant dollars per pupil in 1989-90 to $4,657 per pupil in 1997-98, representing increases of 61% in current dollars and 31% in constant dollars.

While dollar support increased, the state proportion of state/local revenue declined from 77.8% to 72.9%, while the local share increased from 22.2% and 27.1%.

Changes in Equity

The Office of Education Accountability (1998) also reported improvements in equity between 1989-90 and 1997-98. For instance, the difference between mean per-pupil revenues in the highest and lowest quintiles narrowed from $1,516 in 1989-90 to $209 in 1997-98. Thus the discrepancy between top and bottom quintiles decreased 86% in seven years.

The coefficient of variation similarly improved during this period, dropping from 0.193 in 1989-90 to 0.090 in 1996-97, indicating that two-thirds of all per-pupil revenue observations in 1996-97 fell within 9% above or below the mean.

Other Finance Developments

Kentucky policy makers continue to use categorical programs to support particular education reform goals. In 1998, the General Assembly made the following changes in funding (OEA, 1998):

- Funded 70 Highly Skilled Educators (formerly Distinguished Educators) for the 1998-2000 biennium, allowing salary stipends up to 130% of the HSE's base salary
- Provided $34 million and $37 million per year, respectively, for extended school services, covering about 157,000 students

- Maintained $23 per pupil in professional development money, supporting 34,000 teachers
- Raised preschool support from $37 million per year to $39 million per year (though since 1992 the program has underfunded demand by $1.4 to $2.7 million per year)

New accounting/management system (MUNIS)

Kentucky also continues to implement a new accounting/management system, MUNIS, that mandates a comprehensive new chart of accounts based on Federal Handbook 2, Revised. The new system includes some revenues not reported under the old system, such as cash from the sale of school meals and interest from the building fund, capital outlay, and technology accounts. State officials launched MUNIS during the 1994-95 school year. During the implementation period, through 1997-98, school districts submitted annual financial reports under a mix of old and new account code structures, making data analyses difficult (OEA, 1998).

Other Reform Developments

Finance changes provided resources needed to fuel Kentucky's education reform. That larger reform effort--the finance-plus referenced earlier--has reshaped the landscape of Kentucky education. Major developments in a decade of school finance-inspired systemic education reform include the following:

- Six statewide learning goals, 57 academic expectations, and a Core Content for Assessment to guide instruction and shape the content of school accountability.
- An assessment and accountability system that serves as the basis for dispensing rewards (and, originally, sanctions, though these have been postponed) to "successful" schools. In 1998, policy makers replaced the first accountability system, the Kentucky Instructional Results Information System (KIRIS), with the Commonwealth Accountability Testing System (CATS). One notable difference between the two systems is the inclusion of norm-referenced, multiple choice tests in CATS.
- An Education Professional Standards Board to approve standards for new teachers, experienced teachers, counselors, and administrators.
- Professional development initiatives to support implementation of reform strands. Every district must have a professional development plan. Eight DOE regional service centers support these plans with specialists in math, language arts, science, and social studies.
- Superintendent/principal training provided through the Kentucky Leadership Academy for principals.
- A cadre of Highly Skilled Educators (formerly Distinguished Educators) to assist schools with declining student performance or those failing to meet improvement goals.
- Developmentally appropriate early childhood programs for 4-year-old children at risk of educational failure, now offered in all districts, often in conjunction with Head Start.
- Extended school services to provide struggling students with additional instructional assistance. Most districts now offer summer school and after-school programs.
- Family resource and youth service centers to assist students and families in addressing social, economic, and health barriers to learning. As of July 1999, 638 centers were operating, serving 1,007 schools and 473,000 students (Prichard Committee, 1999).

- School-based decision making, shifting authority within educational governance from locally elected school board to school site councils composed of the principal, teachers, and parents. As of July 1999, 1,224 schools were operating, involving 4,000 teachers and 2,500 parents in school-level program decisions (Prichard Committee, 1999).
- Other governance changes designed to strengthen leadership, abolish nepotism, and enhance accountability.

These initiatives cut across the range of educational programs, and many have finance components.

Moreover, policy makers continue to refine Kentucky's reform initiatives. The Prichard Committee for Academic Excellence and The Partnership for Kentucky Schools (1999) reported the following recent developments in KERA reform strands:

- On accountability, new scoring levels were created for reading, mathematics, science, and social studies (non-performance, medium performance, high novice, low apprentice, medium apprentice, high apprentice, proficient, distinguished) to allow schools to receive more credit for student progress. Also, school report cards were created for every school, including information regarding student achievement, attendance, retention, drop-out rates, transition to adult life, school learning environment, and other items.
- On curriculum, the state launched a review of its academic standards and revised the state's Core Content for Assessment with input from educators
- On early childhood programs, the governor appointed an Early Childhood Task Force to study issues and make long-term recommendations for improving the conditions of young children. These recommendations are likely to be debated and acted on during the 2000 General Assembly.
- On early reading, 60 local reading projects were funded in 83 schools at a mean cost of $48,000 per school. Funds pay for teacher training, materials, and additional staff. Programs are needed in 471 schools based on low achievement, high poverty, sizable minority, and number of limited English proficient students.
- On family resource centers, additional funds were allocated for 37 new centers.
- On professional development, the Star Teacher Leadership Academy was created to provide a systematic leadership development program for principals and teachers. Forty of 60 schools that didn't meet learning goals will receive services.
- On the Education Professional Standards Board, the governor's Task Force on Teacher Quality has been meeting throughout the year and will be making recommendations for improving teacher preparation and professional development.

This list reinforces three conclusions: first, that Kentucky's reform initiatives are broad, encompassing finance, governance, curriculum, assessment and accountability, student support, teacher development, and leadership training. Second, this breadth of reform argues for broad assessments and cross-cutting measures when taking stock of progress. Third, that 10 years after the Rose decision, Kentucky's reform remains dynamic, and this dynamism requires informed and reasoned assessments in order to shape its promise.

Furthermore, the comprehensive nature of Kentucky's reform program itself is important because such programs provide coordinated policy and financial support for educators. Robert Sexton, executive director of The Prichard Committee, described a 1999 meeting with teachers from Kentucky's most successful schools. He asked them, what accounts for your success? They responded with three things: curriculum articulated across grade levels, strong school leadership, and teacher collaboration on problems of practice (Sexton, 1999). In effect, KERA provided these teachers with the policy and financial supports they needed to do their work, freeing them to transform resources into student performance rather than scrambling for needed resources. By moving educators beyond basic material needs, state policies contributed to school success. Assessing the aggregate and cumulative effects of these policies will entertain policy makers, educators, and researchers throughout the next year as they attempt to interpret a decade of education reform.

What's Ahead?

According to the Office of Education Accountability (1998), two upcoming school finance issues in Kentucky will address whether and how to fold categorical programs such as Extended School Services into the basic finance formula, and designing improvements to professional compensation that reward teachers' skills and performance rather than just education level and years of service.

Beyond finance, Kentucky policy makers and educators continue to shape the state's comprehensive reform efforts. The year 2000 will mark 10 years of experience with KERA. The Prichard Committee, Kentucky Institute for Education Research, and Appalachian Educational Laboratory all are planning 10-year monographs. KIER and AEL are co-sponsoring a December 2000 national conference on lessons learned from this reform experience. Their measures and assessments of this experience will need to be broad enough to capture lessons learned in particular areas, such as finance, and those larger lessons that indicate the possibilities of complex, coordinated education reform.

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LOUSIANA

School Finance Policy and School Accountability in Louisiana

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Louisiana began implementing a new "pupil weighted" minimum foundation program (MFP) in 1992 which was basically designed to provide greater equity in the distribution of state aid to local school districts by equalizing local tax bases. This new formula, which has been gradually implemented over the past seven years, uses a bi-level approach, with Level 1 (Base Cost) funding based on a specified per-pupil amount. For 1998-99, the total cost of level 1 or the minimum program ($3,020 per pupil) was shared between the state and local school districts based on each school district's relative wealth. On the average, the state provided 65 percent of level 1 funding, whereas local school districts provided the remaining 35 percent.

Over 90 percent of the state aid distributed by the formula is allocated to the cost of level 1. In addition to local school district wealth, a pupil weighting system is also used to determine the amount of state aid to which a district is entitled at level 1. This basic funding level for 1998-99 provided per-pupil weightings for the following four categories of students: 1) at-risk students (17%), 2) students with exceptionalities (150%), 3) gifted and talented students (60%), and 4) secondary vocational education students (5%). A weighting system is also used for small districts with less than 7,500 students (a sliding economy-of-scale weight with a maximum of 20% for districts with the least number of students).

Level 2 (Local Incentive) of the formula is structured to provide an incentive to reward local tax effort which generates funding above the required level 1 amount. For revenue raised by a local district beyond the level 1 requirement, the state will match up to forty percent of this additional local revenue depending upon the relative wealth of the particular school district. Although the formula calculates the local contribution that each school district should make to the cost of the minimum program, there is no requirement for the specified local revenue to be generated. In other words, school districts that do not raise the specified local revenue are not penalized in any manner.

The implementation of a recent legislative provision that would have provided for a proportionate reduction in state aid funds to those districts that do not raise sufficient local revenues to meet their local level target in the 1999-2000 school year has been delayed, pending a review of the impact of this provision on lower wealth districts. Also, for the past three years, a so-called level 3 concerned with teacher pay increases has been added to the MFP formula. In an attempt to further equalize spending across school districts, the State Department of Education has implemented a statewide salary increase for teachers through the basic formula (which could be supplemented with locally raised additional revenues).

Evaluation of the MFP

The mean per-pupil revenues and corresponding coefficients of variation by governmental level for 1991-92, the last year under the old formula, and for 1992-93 and 1997-98, the first year and the most recent year under the new formula, are provided in Table 1. At the local level, for example, the coefficient of variation for total local revenue, which is generated from both local property and sales taxes, decreased slightly in 1992-93, but then increased slightly by 1997-98. (In 1997-98, of the combined local tax revenue, 59.4% was from local sales taxes, and 40.6 % was from local property taxes.) At the state level, the coefficient of variation again decreased slightly for total state revenue, but had increased by 1997-98. A more pronounced pattern of an increase in the coefficient of variation is observable at the state level for revenue distributed through the MFP formula. The actual equity effects of the new formula in its first six years as measured by the coefficient of variation have been constrained by the phase-in and hold harmless features of the implementation process.

Table 1
Mean Per-pupil Revenues and Coefficients of Variation for Selected School Revenues in Louisiana for 1991-92, 1992-93, and 1997-98

	1991-92		1992-93		1997-98	
School Revenues	Mean Per-pupil Revenue	Coefficient of Variation	Mean Per-pupil Revenue	Coefficient of Variation	Mean Per-pupil Revenue	Coefficient of Variation
Total Local Revenue	$1,425	0.365	$1,477	0.356	$2,187	0.363
Total State Revenue	2,349	0.082	2,386	0.078	2,967	0.115
MFP Formula	2,182	0.070	2,231	0.071	2,734	0.134
Total Federal Revenue	463	0.336	521	0.309	663	0.255
Total Revenue	4,236	0.122	4,384	0.113	5,818	0.101

Source: Louisiana Department of Education (1999).

A basic goal of the new formula is to distribute state aid in accordance with local school district wealth, that is, to allocate greater amounts of state aid to the less wealthy districts. An adaptation of the Representative Tax System (RTS) is used in Louisiana as the measure of local wealth or fiscal capacity since local school districts have authority to utilize both the property tax and the sales tax to raise revenues at the local level. This RTS approach combines property and sales tax capacity per pupil for each district, and then calculates the individual district's index on a relative basis to the statewide average.

The correlation coefficients for the relationships between wealth or local school district fiscal capacity and selected school revenues are presented in Table 2. At the local level, the data suggest that the relationship between wealth and revenue, including property and sales tax revenue, has increased from 1991-92 to 1997-98. At the state level, the data suggest that the new MFP formula is addressing its basic goal by distributing more state aid to less wealthy school districts, in that the negative association between wealth and state aid has increased dramatically over the years from -0.181 to -0.804.

Table 2
Correlations Between Wealth (School District Fiscal Capacity) and Selected School Revenues in Louisiana for 1991-92, 1992-93, and 1997-98

School Revenues	1991-92	1992-93	1997-98
Total Local Revenue	0.751	0.812	0.842
Total State Revenue	-0.048	-0.302	-0.776
MFP Formula	-0.181	-0.355	-0.804
Total Federal Revenue	-0.297	-0.192	-0.202
Total Revenue	0.649	0.687	0.631

Source: Louisiana Department of Education (1999).

Implementation of the MFP

The positive equity effects of the new formula have been constrained by the lack of a local support requirement at level 1 and by the lengthy implementation process. The formula is being implemented with a "phase-in" feature (originally a five-year period which now has been extended) which provides limitations for districts receiving new state aid and a "hold-harmless" feature (an indefinite period) which continues current state funding levels for districts which might otherwise receive less state aid under the new formula. As shown in Table 3, total actual local property and sales tax revenues, $1,522 million or $1,993 per pupil, exceeded the MFP local target, $1,043 million or $1,365 per pupil, for the 1997-98 fiscal year. A surplus of $487.6 million was generated by 54 of the 66 school districts in the state. The remaining 12 school districts, however, contributed less than expected at the local level by approximately $8.2 million.

Nearly all districts in the "hold-harmless" category would also be in the highest quintile of school districts for the state if ranked by local wealth. As indicated in Table 4, the "hold-harmless" districts received excess funding (above their entitlement under the new formula) of $89.3 million in 1997-98. The state further restricted the implementation of the new formula by withholding $160.4 million because of the "phase-in." In summary, the state appropriation for 1997-98 shortchanged 55 school districts by $160.4 million of what their formula allocation should have been, while overfunding 11 districts by $89.3 million in comparison with what their formula allocation should have been.

Table 3
Target and Actual Local Contributions to MFP Level 1 Funding for 1997-98

MFP Target Local Contribution		
Total Amount	$	1,042,637,601
Amount Per Student	$	1,365
MFP Actual Local Contribution		
Total Amount	$	1,522,075,907
Amount Per Student	$	1,993
Districts Where Local Contribution Was Lower Than the Target		
Number of Districts		12
Number of Students		59,816
Total Amount	$	8,174,208
Amount Per Student	$	137
Districts Where Local Contribution Was Higher Than the Target		
Number of Districts		54
Number of Students		704,024
Total Amount	$	487,612,514
Amount Per Student	$	693

Source: Louisiana Department of Education (1999)

Table 4
Distribution of State Hold-harmless Funds and Underfunding Across School Districts in Louisiana for 1997-98

1997-98 MFP Target		
Total Amount	$	2,076,551,974
Amount Per Student	$	2,719
1997-98 MFP Actual		
Total Amount	$	2,088,511,104
Amount Per Student	$	2,734
Hold-Harmless		
Number of Districts		11
Number of Students		184,189
Total Amount	$	89,348,615
Amount Per Student	$	485
Underfunding		
Number of Districts		55
Number of Students		579,651
Total Amount	$	160,448,907
Amount Per Student	$	277

Source: Louisiana Department of Education (1999)
Note: Underfunding is defined as the difference between full funding of the MFP cost increases and actual funding (29.2% phase-in 1997-98) plus hold harmless adjustments.

School Accountability Program

Legislation was passed in 1997 to provide for the development and implementation of a School and District Accountability System which focuses on student achievement in each public school. This school accountability program is designed to reinforce the basic intent of the MFP formula, which is to provide greater flexibility to school districts in the use of state funds while also holding them accountable for student achievement results. The accountability program requires, at a minimum, clear and appropriate standards for schools and school districts, indicators for the assessment of schools and school districts, student achievement baselines, student growth targets, appropriate minimum levels of student achievement for each public school and school district, rewards and corrective actions, specific intervals for assessment and reassessment of schools and school districts, a review process for evaluating growth targets, and technical assistance.

As the first step in this accountability program, the state spent approximately $9 million during the 1998-99 school year to begin assessing all public schools. Under this accountability program, all public schools will receive individual performance scores. The performance scores for the state's kindergarten through grade 8 schools (K-8) were released in 1999, and the scores for its high schools will be released in two years. The K-8 scores were based on a formula that considers student performance on a state achievement test (60% of the score), a national achievement test (30%), and also on school attendance and dropout rates (10%). Based on its score, each school was then placed in one of six categories which ranged from "School of Academic Excellence" to "Academically Unacceptable." Of the state's 1188 K-8 schools, 110 were placed in one of the top three categories (academically above the national average), and 524 were placed in the fourth category--academically above the state average; 497 were placed in the fifth category--academically below the state average, and 57 were classified as academically unacceptable. In other words, 9 out of 10 of the K-8 public schools scored below the national average.

Each school's score will serve as a benchmark to measure progress, and all schools, regardless of how they scored in 1999, must show improvement. Failing schools will get extra help from teams of educators charged with developing a plan to address school shortcomings. Several schools will also get a full-time "distinguished educator" to assist with teaching methods and techniques, and also to make recommendations on how to improve the schools. Under this accountability program, poor-performing schools that do not improve could be "reconstituted" which may lead to replacing the principal and faculty.

Recent Charter School Legislation

Louisiana initially enacted charter school legislation in 1995 which authorized the creation of charter schools in up to 8 of the state's 66 local school districts. Legislation enacted in 1997 now allows all 66 school districts to approve charter proposals (previously limited to the 8 pilot school districts), and also permits the State Board of Education (SBE) to grant charters (previously limited to local school boards). Louisiana's legislation stresses the importance of creating improved learning opportunities for all students, but especially for at-risk pupils. Thus, the legislation also stipulates that a charter school must enroll at least the same percentage of at-risk students as the percentage enrolled in the local school district as a whole.

Currently, there are four types of charter school options. Type 1 charters are granted by a local school board for a new school to be operated by a non-profit corporation. Type 2 charters are granted by the SBE for a new school to be operated by a non-profit corporation. Type 3 and 4 charters are both granted by local school boards for pre-existing public schools. Type 3 is operated by a non-profit corporation, whereas Type 4 is operated by the local school board. For Types 1, 3, and 4 charter schools, local school district revenues follow the student to the charter school. For Type 2 charter schools, a state fund provides both the state and local share of basic aid to operate these schools. In 1998-99, a total of 11 charter schools were in operation in nine parishes across the state--5 Type 1 schools, 2 Type 2 schools, 1 Type 3 school, and 3 Type 4 schools.

School Finance Court Cases

Two school finance lawsuits were filed in state court in 1992 on the issues of equity in the distribution of state aid and the adequacy of the school finance system to provide a minimum foundation program, based on state constitutional language. These suits were filed by the Minimum Foundation Commission, representing 26 school districts, and the American Civil Liberties Union, representing the parents and children in six other school districts. A third group of "hold-harmless" districts intervened on the issue of adequacy. The state request for a summary judgment to dismiss the suits was granted by a state appeals court in 1997, and this decision was upheld by the Louisiana Supreme Court in 1998.

Reference

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MAINE

Maine School Funding: Moving from an Expenditure-Driven to a Cost-Driven Model

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Introduction

The recent economic upturn has once again provided Maine with budget surpluses. But instead of merely pumping more funds through the existing school funding formula, a formula many question on grounds both of taxpayer and student equity, the governor has proposed modifications in the formula designed to move funding from an expenditure-driven to a cost-driven funding model.

In the past three years, the Maine Legislature has taken two key steps to change the way schools are to be funded and held accountable in the future. First, the legislature passed the Learning Results, a set of learning standards in eight disciplines that schools must ensure that all students achieve before they graduate from high school. Second, the legislature directed the State Board of Education to develop a method of funding the programs and services necessary for students to achieve the statewide learning standards. In response, the State Board of Education established an Essential Programs and Services (EPS) committee and charged it to: (1) identify the school resources, financial and other, needed for all Maine students to achieve the *Learning Results* standards; and (2) estimate the cost statewide of those essential resources. In fulfilling its charge, the committee was guided by one fundamental principle: the purpose of developing the new approach for funding K-12 education was to insure that all schools have the programs and services that are essential if all students are to have equitable educational opportunities to achieve the Learning Results.

The Essential Programs and Services Model

Based on the legislative charge, the EPS committee first developed definitions for essential programs and services. These are:

- Essential Programs are those programs and courses Maine schools need to offer all students so that they may meet the Learning Results standards in the eight Learning Results program areas of:

  a. Career Preparation
  b. English Language Arts
  c. Health & Physical Education
  d. Mathematics
  e. Modern and Classical Languages
  f. Science and Technology
  g. Social Studies
  h. Visual and Performing Arts

- Essential Services are those resources and services required to insure that each Maine student is offered an equitable opportunity to achieve the Learning Results standards contained in the eight essential programs. These resources and services were categorized into the following components:

A. School Personnel
1. regular classroom and special subject teachers
2. education technicians
3. counseling/guidance staff
4. library staff
5. health staff
6. administrative staff
7. support/clerical staff
8. substitute teachers

B. Supplies and Equipment

C. Resources for Specialized Student Populations
1. special needs pupils
2. Limited English Proficiency (LEP) pupils
3. disadvantaged youth
4. primary (K-2) grade children

D. Specialized Services
1. professional development
2. instructional leadership support
3. student assessment
4. technology
5. co-curricular and extra-curricular student learning

E. District Services
1. system administration
2. maintenance of operations

F. School Level Adjustments
1. vocational education
2. teacher educational attainment
3. transportation
4. small schools
5. debt services

The committee developed three prototypical schools and grade configurations to facilitate the EPS model building process. These three prototypical schools were:

School Level	Number of Students
Elementary School (Grades K-5)	250
Middle School (Grades 6-8)	400
Secondary School (Grades 9-12)	500

The number of students assigned to each school level was based on actual average school sizes found in Maine schools. Using these three grade-configured prototypical schools, the committee defined the levels of resources and services needed in these schools to ensure that all students have equitable opportunities to achieve the Learning Results.

Once the components of the EPS model were defined, four key sources of information were used to identify the desired level and cost of each component in the model. These four sources were: (1) empirical information about Maine schools; (2) evidence from other existing or proposed models; (3) the national literature on school resources and performance; and (4) expert testimony. In the case of school personnel, data on high performing Maine schools and the national literature were used in defining desired personnel levels, and statewide average salaries were used to establish personnel costs.

In order to insure that all students have equitable opportunities for achieving the Learning Results, the committee concluded that additional resources would be required to support programs for specialized student populations. The committee chose to use a weighting procedure to provide additional support for special education children (2.10), Limited English Proficiency (LEP) students (1.15), disadvantaged youth (1.02), and primary grade children (1.10). The committee also recognized that local school units must provide several types of specialized support services for successfully implementing the Learning Results. The committee identified five categories of support services: (1) professional development; (2) instructional leadership support; (3) student assessment; (4) technology; and (5) co-curricular and extra-curricular learning. Finally, the committee identified five types of school level adjustments which should be included in the EPS Model. These adjustments, where applicable, would be based on school and/or school district characteristics and would not be distributed on a per pupil bases. These five were: (1) vocational educational; (2) teacher educational attainment; (3) transportation; (4) small schools; and (5) debt service.

Cost Estimate for All School Programs

Table 1 provides a summary cost estimate of the EPS Model, and the costs of all three components of the comprehensive education system the committee believes should be present in Maine. The EPS model costs were calculated by converting the costs of the services identified in Sections A, B, D, and E of essential services above into a per pupil operating cost. Added to this amount were specialized student population weighting calculation (Section C) and the specialized School Adjustments (Section F). The figures in the table indicate that implementation of the proposed EPS Model, along with the additional programs, would cost approximately $153 million, a 11.4% increase over the total of state and local expenditures for 1997-98, the most recent year for which there is complete and comparable data available. Costs for an individual school district would be determined by multiplying the student population in the district by the applicable per pupil operating costs in Table 1, adding the appropriate weighting factors, and adding the specialized school adjustments. Determining what portion of a district's total education costs would be paid for by the state and what portion by the local community is beyond the purview of the Essential Programs and Services committee, but an important next step in implementing the proposed EPS Model.

Next Steps

The State Board of Education has presented its essential programs and services report to the Legislature, and the governor has incorporated the concept into the Department of Education funding proposal. This proposal calls for: (1) using funds to bring the per-pupil guarantee closer to actual operating cost over a three year period; and (2) financing the additional work needed for implementing the essential programs and services model. The department proposal, along with several alternative funding proposals, is being debated by the Legislature at this time. And although the crystal ball is still fairly clouded, it appears some variation of the department proposal is gaining favor in the Legislature. If so, Maine will have taken a critical step toward developing a cost-based formula, and a formula that provides greater assurances that all Maine children will have equitable opportunities to achieve the statewide learning standards.

Table 1
Estimated Cost-Essential Programs and Services 1998-99

REGULAR STUDENT PER PUPIL OPERATING COSTS (PPOC)					
	No. Students	PPOC			
K-5	99,220.6	$4,669	$463,261,181		
6-8	51,815.9	$4,819	$249,700,616		
9-12	62,449.5	$5,381	$341,421,760		
				$1,054,383,557	
SPECIALIZED STUDENT POPULATIONS ADJUSTMENT					
K-5			$102,217,963		
6-8			$ 45,059,859		
9-12			$ 62,530,084		
				$209,807,906	
SPECIALIZED SCHOOL ADJUSTMENTS					
Adjustment for Masters			$ 30,972,728		
Transportation & Buses			$ 66,477,789		
Small School Adjustment			TBA		
Debt Service			$ 73,838,708		
Adjustments				$171,289,225	
ADDITIONAL EDUCATIONAL PROGRAMS					
Vocational Education			$26,031,013		
Gifted & Talented			$ 7,909,695		
Adjustments				$33,940,708	
ADJUSTMENTS FUNDED BY STATE			$27,940,748		
TOTAL ESTIMATED EXPENDITURES				$1,497,362,143	
TOTAL 1998-99 STATE & LOCAL FUNDS				$1,344,474,463	
DIFFERENCE				$ 152,887,680	11.4%

MARYLAND

School Finance Policy Issues in Maryland: The 1999 State of the State[1]

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Introduction

While many education policy issues in the state of Maryland have important implications for resources and finance, this brief overview focuses primarily on the funding implications of current initiatives designed to improve school and student performance. As is the case in numerous states throughout the nation, Maryland school policy and the finance decisions to support such policy are heavily steeped in improving school and student performance, especially for students at risk of education failure. The first section of the paper describes the state's education accountability system, the Maryland School Performance Program. This program has important implications for how resources are distributed across schools and school systems. In other words, it sets the policy context and establishes the data for rewards, sanctions, and other sorts of funding decisions. The following section describes the School Accountability Funding for Excellence program, a recently-enacted program that introduces new programs for at-risk students in the state and integrates funding from a variety of programs targeting at-risk students with the goal of providing a more comprehensive and coordinated program. The next section describes several other recent changes with respect to school finance in Maryland. The overview concludes with a brief discussion linking the current school finance issues described in this paper with the broader state context.

The Maryland School Performance Program

The Maryland School Performance Program (MSPP) is the state's education accountability system which drives most funding decisions aimed at assisting schools in need or rewarding those demonstrating high levels of performance. The Maryland State Department of Education monitors the performance of schools and school systems through the MSPP. The program measures school and school system performance (as opposed to student performance) using a number of indicators that reflect both status and improvement over time. The performance of school systems and individual schools are judged against their own growth from year to year, not against the growth in other school systems or in other schools. Since 1991, the annual Maryland School Performance Report has been published in two parts: (1) the state and school system level report contains information in Maryland and

[1]This overview of current fiscal policy issues in the state of Maryland was prepared for the annual meeting of the American Education Research Association in April 1999. The paper draws on a more comprehensive document describing the public school finance program of Maryland to appear in the forthcoming volume, "Public School Finance Programs of the United States and Canada, 4th Edition."

its 24 school systems, and (2) the school system and school level report includes school specific information.

The annual MSPP reports present data along a number of performance-relevant dimensions. First, two types of test scores are presented. The Maryland School Performance Assessment Program (MSPAP) involves annual tests that require students in grades 3, 5, and 8 to apply what they know about reading, writing, language usage, mathematics, science, and social studies. Unlike functional tests, which measure basic knowledge, the MSPAP tests are designed to set high expectations and demand high performance. In each content area, MSPAP results are reported through five proficiency levels, with level one being the most proficient. Proposed performance standards for schools and local school systems to meet include: "Satisfactory" where 70 percent of students score at proficiency level three or above; and "Excellent" where 70 percent of students score at level three or above, with at least 25 percent of students at level two or higher.

A second set of test scores reported in the MSPP are those from the Maryland Functional Tests. In order to graduate from a Maryland high school, a student must achieve basic competencies in reading, mathematics, writing, and citizenship. Functional tests assess whether a student has attained these competencies. Functional tests are reported for students at the end of grades 9 and 10.

In addition to test scores, the MSPP reports information on attendance rate, dropout rate, high school program completion, and grade 12 documented decisions about next steps. These are also measures of a school's performance.

Finally, the reports include a variety of background variables including the number of students receiving special services, number of gifted and talented students, student mobility rates, wealth per pupil, per pupil expenditures, staffing per 1,000 pupils, average length of the school day, and length of the school year.

Information from the MSPP is used to monitor school performance over time and to identify schools in need of support or deserving of rewards. Under the state standards for achievement testing, schools with low-performing scores are given Challenge grants, totaling $5.6 million in 1998-99, to undertake significant restructuring of their educational programs. If such schools continue to underperform for several years, they may be identified as eligible for reconstitution by the state. School Reconstitution, which accounts for $9.8 million of the state education funds in 1998-99, permits the state to mandate changes in the management of poorly performing schools. Since 1995, the state has identified 97 schools as "eligible" for reconstitution: 83 in Baltimore City, 12 in Prince George's County, 1 in Anne Arundel County, and 1 in Somerset County. The state has provided funding to assist these schools. While the status of "reconstitution-eligible" has become widespread in the state, thus far no schools have actually been reconstituted by the state. Currently, the State Board of Education is deliberating how to proceed with the treatment of reconstitution-eligible schools.

In addition, the MSPP data are the basis for distributing the School Performance Recognition Awards. The School Performance Recognition Awards, established in 1996 and totaling \$2.75 million in 1998-99, reward schools that show substantial improvement toward meeting the standards of the MSPP. These programs illustrate how the MSPP is linked with rewards, sanctions, and accountability in general with respect to schools and school systems in the state of Maryland.

In addition to the MSPP and MSPAP, Maryland state is in the process implementing a new system of high school assessments that will replace the current functional tests as a requirement for high school graduation. In contrast to the MSPAP which provides measures of school performance, the high school assessments indicate student-level performance. The high school assessments are tests of a student's knowledge of core learning goals contained in certain course content areas. The tests will be given after the student completes a course containing the core learning goals. Students entering grade 9 in the fall of 2001 will be required to pass tests in English I, government, and algebra or geometry. Students will be required to pass the biology test if their local school system chooses to include biology as a requirement. Students who do not pass a test the first time they take it will receive assistance from the local school system and may retake the test when local administrators agree the student is ready.

In an effort to assist students who are likely to experience difficulties with these high-stakes assessments, the State Board of Education authorized a steering committee composed of a diverse group of stakeholders to develop a proposal for ensuring that all students are able to pass the exams. The State Board of Education passed a resolution requesting that "a comprehensive K-12 program of remediation assistance for students be developed by MSDE and funded by the State and other non-local sources. This comprehensive remediation program shall begin in the early elementary grades with mandatory interventions for each public school student throughout the State who is not succeeding in reading and/or mathematics as well as in other core subject areas covered by State tests. The remediation program shall have identified resources and other implementation to begin during the 1999-2000 school year." In June of 1999, representatives of the steering committee presented their report recommending a variety of strategies in three broad areas: (1) monitoring student performance and providing academic interventions for students falling behind, (2) assuring appropriate levels of educator capacity in all classrooms, and (3) improving student readiness. The committee recommended that funding for this plan come from a variety of sources. While the state is expected to provide additional funding to support these recommendations, a large proportion of the necessary funding is likely to be awarded through the state's School Accountability Funding for Excellence Program, described in the next section.

The School Accountability Funding for Excellence Program

In 1998, the Maryland General Assembly established the School Accountability Funding for Excellence (SAFE) program, which provides additional targeted state funding for programs serving at-risk students. The program accounts for \$215.7 million of state education funding in 1998-99 (8.3% of total state school aid). Specifically, SAFE programs

(1) establish a new targeted improvement grant, elementary school library grant, and teacher development program; (2) enhance state funding for non- and limited-English proficiency programs, aging schools, and extended elementary education programs; and (3) provide Prince George's County with additional funding for effective schools programs, a pilot integrated student support services project, and teacher development initiatives.

To receive funding for these programs, each local school system must submit to the Maryland State Department of Education for approval a comprehensive plan on ways to increase the performance of at-risk students. The plan must integrate funding from different programs (including federal and state) targeting at-risk students with the goal of providing a more comprehensive and coordinated program. The plan must also describe the measures that will be used to monitor change in educational outcomes. Several of the key SAFE programs are described below.

One program included in SAFE is the Targeted Improvement Grants program which totals $20.6 million in 1998-99. This program establishes new categorical grants for students living in poverty. Targeted improvement grant funding is based on 85 percent of the number of children eligible for free and reduced price meals for the second prior fiscal year multiplied by 2.5 percent of the per pupil foundation under the basic current expense program.

Another sizeable allocation is the Teacher Development Program which constitutes $15.9 million in 1998-99. This program provides funds to enhance the ability of teachers to deal with at-risk students in schools with a free or reduced price meal count of 25 percent or more of their student population. Each eligible school receives an $8,000 grant for this purpose. Baltimore County has been awarded an additional $5 million to enhance its teacher mentoring program, which is a pilot program for mentoring at-risk students. In addition, Prince George's County is to receive $2 million to fund a teacher mentoring program that is based on the Baltimore County program. The Teacher Development Program also provides $500,000 for statewide provisional teacher certification and teacher development initiatives. The Teacher Development Program is one of the state's efforts to deal with the widespread problem of an undersupply of well-prepared teachers, particularly in poor school districts serving larger concentrations of at-risk students.

Non- and Limited-English Proficiency Grants are also part of the SAFE program. Non- and limited-English proficiency grants were initially funded in the fiscal 1994 state budget in response to legislation passed that year. Prior to fiscal 1999, a $500 grant was provided to counties for each non-and limited-English proficient student (LEP) in a county. As a result of the School Accountability Funding for Excellence (SAFE) legislation in 1998, the non- and limited-English proficiency grants were increased to $1,350 per student and the two-year cap was removed. The total price tag for the program is $23.6 million in 1998-99. The Baltimore City Schools legislation enacted in 1997 provides an additional $1.9 million for limited English proficiency programs. Both the SAFE and Baltimore City Schools legislation sunset June 30, 2002.

Finally, a set of Prince George's County Initiatives account for $5.5 million under SAFE in 1998-99. These initiatives provide additional state funding for specific programs in Prince George's County. This includes $2 million for the effective schools program, $1 million for a pilot integrated student support services project, and $2.5 million for provisional teacher certification and teacher development initiatives.

SAFE not only introduces new programs to support the education of at-risk students, but also represents a new approach to allocating funds to support the education of at-risk students that is more comprehensive than the traditional system. To receive funding, districts must draft and submit for review a comprehensive plan for utilizing funds from a variety of sources to educate all students.

Other School Finance Policy Issues

In addition to the funding awarded in the name of performance and accountability described above, an assortment of diverse but important fiscal issues in Maryland's education system warrant attention. Two recent policy issues related to school finance in the state are changes in the teacher retirement program and school construction allocations. These are described below.

Teacher Retirement

Beginning in July of 1998, legislation was implemented to increase the benefit formula for the teachers' retirement system as well as to provide an enhanced cost-of-living adjustment (COLA). All active members of the Teachers Pension System (except employees of participating local governments and members who transfer from the old retirement systems after April 1, 1998) receive 1.4 percent of average final compensation for each year of service earned after July 1, 1998. This represents an increase in future service benefits for all members earning less than $200,000 per year. For employees earning less than $29,300 per year (the current Social Security Integration Level) who receive a 0.8 percent multiplier under the current pension system formula, the new multiplier represents a 75 percent increase.

All members of the Teachers Pension System described above are now required to contribute 2 percent of earnable compensation to help offset the costs of the enhanced multiplier. Highly-compensated employees are no longer required to contribute 5 percent of compensation above the Social Security Wage Base.

The past service benefit formula has also been enhanced. Service earned prior to July 1, 1998 is now calculated as the greater of: 1.2 percent of average final compensation for each year of service, or the previous two-tiered 0.8 percent/1.5 percent benefit formula. The new formula increases past service benefits for all employees who earn less than $68,000. Employees who earn more than that are held harmless. No "vesting' period is required for employees to take advantage of the enhancements.

All Teacher Pension System members, except employees of current or withdrawn participating local governments, will now receive a compound COLA up to a maximum of 3 percent, versus the 3 percent maximum simple COLA. A compound COLA is an increase based on the previous year's benefit and hence takes into account the compounding effect, while the simple COLA is based on the amount of the original benefit.

Deferred vested members – those who vested in one of the pension systems but who have since left state service prior to full retirement – receive benefits under the old pension system formula if they separated from employment on or before June 30, 1998. Those who leave after that date receive the enhanced past service benefit for their service credit. All deferred vested members, however, receive the 3 percent compound COLA.

It is estimated that the defined benefit enhancements will increase the liabilities of the Maryland State Retirement and Pension System by $2.3 billion. These liabilities will be funded over 20 years beginning July 1, 1999. The state pays the entire cost of pension/retirement benefits for eligible school personnel on behalf of each county board of education. The State Retirement and Pension System makes an estimate of the employer retirement costs for the current fiscal year. This estimated lump-sum amount is included in the budget of the State Department of Education for the subsequent fiscal year. Because the state's contributions relate to employee salaries, this program directs more aid to wealthier counties (who generally pay higher salaries to their school personnel) than to less wealthy counties. The only exception to state coverage of teacher pension/retirement benefits is if a position is funded through federal sources. In such cases, the local school board is required to reimburse the state for that employee's retirement costs. Further, since 1994 the state has no longer provided funds for payment of the local employer share of Social Security.

School Construction

Since 1971, the state has funded school construction costs except for site acquisition, architectural and engineering fees, utility connections, regional or central administrative offices, permits, and movable furniture and equipment. Projects for school construction are reviewed based on annual submissions by local education agencies of master plans for school construction. The state's share for construction costs for a county is based on the state's share of the per pupil minimum foundation for the county under the current expense formula. Because the state share of the minimum foundation is higher for less wealthy counties, the school construction cost-sharing formula also provides a greater share of construction funding for less wealthy school systems. No county, however, receives less than a 50 percent share from the state for the construction of schools.

One recent development in the state has made additional funds for school construction available. In connection with stadium legislation passed in 1996, a Public School Construction Fund was established. The fund is slated to receive a $2.4 million transfer annually from the Maryland Stadium Authority beginning in fiscal 2001 and ending in fiscal 2010, for a total of $24 million. The funds are restricted to public school construction and capital improvement projects. The legislation specifically states the Maryland State General Assembly's intent that the funds be in addition to, rather than a substitution for, any funds provided by the Governor's allowance for school construction. Since no provision was made for their distribution, these funds are expected to be distributed in a manner similar to other school construction funds.

Conclusion

As described above, most of the "hot topics" in the Maryland state school finance front relate to student and school performance. This can be viewed as a response to recent calls for greater attention to efficiency, equity, adequacy, and accountability in how schools in the state are funded. For instance, the 1983 Civiletti Commission, appointed in the wake of the Hornbeck v. Somerset school finance equity case, identified eight principles to guide state education funding: (1) equality of education opportunity; (2) adequacy, (3) funding fairness, (4) special needs, (5) effectiveness and efficiency, (6) local control, (7) accountability, and (8) simplification. Several of these principles resurfaced a decade later in 1994 when the Governor's Commission of School Funding in Maryland issued its report. While the precise meaning of some of these principles (e.g., adequacy) is still being debated among educators in the state, others (e.g., effectiveness and efficiency, accountability) are clearly reflected in many of the current school finance policy issues described in this paper. The recent appointment of the Commission on Education Finance, Equity, and Excellence – the result of a bill passed by the state legislature last year – promises to keep funding issues near the top of the state's education agenda. This commission will evaluate all of the state's current and proposed education financing formulas, grant programs, and school accountability measures. Its charge is to recommend a plan to ensure that the state's public school systems receive equitable and adequate funding.

MASSACHUSETTS

Massachusetts: A Case of Equity, Adequacy, and Local Control

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Introduction

The year 2000 is the advent of a new millennium and an opportunity for the world to reflect on its past and decide its future. In Massachusetts, the year 2000 marks the end of additional financial assistance provided to public schools through the 1993 Education Reform Act intended to help all local school districts reach the foundation spending level per pupil. As the world prepares for a massive computer shutdown, Massachusetts must contemplate the shutdown of state aid to its public schools, and whether or not, without additional state aid, districts can maintain spending at the foundation level set on their own. To better understand why this might be a challenge for individual school districts, the last two decades of the states' educational reform policies will be reviewed and discussed in this paper. The Massachusetts' milestones include Proposition 2 ½, *McDuffy v. Secretary of the Executive Office of Education* (415 Mass. 545 at 621 (1993) ("*McDuffy*")), the 1993 Education Reform Act, and, the most recent legal challenge to Massachusetts' school funding formula, *Ameilia Lopez v. Board of Education*. The paper will consider the political, educational, and economic implications of each of these events.

The Effects of Massachusetts Tax Reform Efforts

Massachusetts' history illustrates the state's adversity to tax increases, and highlights its sensitivity to political agendas and special interest groups. Massachusetts never fully recovered from the 1974 recession and the OPEC oil crisis (Mulkeen, 1984). Traditional industry began to leave the state for the Sunbelt region (e.g., Florida and North Carolina) where the cost of living was considerably cheaper. This mass (pun intended) exodus facilitated the shift in the state's economy base from industry to technology. Because of the state's high cost of living, Massachusetts' High Technology Council and high tech businesses were unable to attract the needed professionals to support this new enterprise and as a result, experienced a loss of revenues. Between 1970 and 1980, the state tried to compensate for this loss in revenue through taxation, where forty percent of a household's income in Massachusetts was paid out in taxes. A majority of these taxes were in the form of property and car excise taxes, which supported local government activities. In 1980, Massachusetts , nick-named "Taxachusetts," was ranked 10th in the nation for personal income and 47th in the nation for spendable income (Meher, 1980). Many tax payers felt that the state and local taxes were too high. Special interest groups such as the Citizen for Limited Taxation (CLT) and the Massachusetts High Technology Council lobbied the state legislature to reduce taxes.

The legislature responded with *Proposition 2 ½* on November 5, 1980 which passed overwhelmingly and severely impacted local school districts. Proposition 2 ½ limited annual increases to property and excise taxes to 2 ½ %. The passage of Proposition 2 ½ changed the political climate that governed schools. It shifted the blame for high taxes from the state and national economic hardships to education, and removed from the picture special interest groups and industries that would benefit from the tax cuts. This created a zero sum game where personal economic hardship was directly correlated to the high cost of education, rather than the active lobbying efforts to direct state monies to aid special interest groups and industry.

Proposition 2 ½ had several negative consequences. First, Proposition 2 ½ shifted the cost of education from local to state support because with a decrease in revenues as the result of lower taxes, the resources were no longer available at the local level. The escalating cost of special education was used to deflect criticism about the decreasing levels of local support for general education. In 1972, the state required special education be provided to every student who needed it. Expenditures from this program grew from $104 million in 1973-1974 to $305 million dollars in 1979-1980, with a disproportionate amount of this growth being funded by local school property taxes (Ladd & Wilson, 1985). Special education did not escalate solely because of the enactment of the state's special education laws. Many general educators used special education as a bank account to compensate for any loss in revenue created by Proposition 2 ½. An inverse relationship was witnessed, as local revenues for general education decreased, expenditures for special education increased. Proposition 2 ½ also resulted in the elimination of "fringe" programs (e.g., cultural enrichment programs, sports teams, art, library, and music) since these programs did not enjoy the same legislative protections as special education (Mulkeen, 1984).

Second, school budgets were brought under the control of City Councils rather than School Committees, with the intent to control school spending. The public perceived school committees as out of control, allowing the education budgets to go unbridled. Any school budget that raised taxes was subject to a vote that required a 2/3 majority for its approval. The elimination of fiscal autonomy held by School Committees produced a slower and less responsive budgetary process that was unable to accommodate rising student enrollment and cost, with most budgets lagging at least a year behind.

Third, Proposition 2 ½ created greater inequity. Proposition 2 ½ significantly reduced local government revenue for education and other services. Some towns like Holyoke, Northampton and Ipswich received a 20% reduction in local tax levy. Some towns were able to overcome the loss of revenue because Proposition 2 ½ was not implemented until 1982. This two year delay gave towns enough time to reassess their properties, in order to reap the benefits of a larger tax levy in their base year.

In the final analysis, wealthier towns benefited from the effects of Proposition 2 ½. They could still support their town's operations without pitting social and town services against education. In essence, they received a tax break with no major consequences. Poorer communities, saw reductions in services, due to restricted revenues and dwindling state aid caused by the 1980's recession. This created a situation where social services were in direct competition with education, leaving local politicians to determine how sparse financial resources would be dispersed.

Massachusetts Educational Finance Litigation

In addition to lost revenues caused by Proposition 2 ½, school districts had to contend with the state's loosely configured foundation formula, known as a Needs Based Formula. In theory, the formula is capable of fiscally equalizing all local tax revenues up to the highest capacity school district in the state (Alexander & Salmon, 1995). Based on the district's fiscal capacity, the state guarantees an inverse amount of equalization aid. The end result is a formula that equalizes state funding by neutralizing the differences between districts' fiscal capacity to raise revenues. However, during the 1980's the state entered a recession that decreased state funding by 25%, forcing poorer school districts to go under-funded (Anthony, 1994). Many of these school districts were trapped by the limits imposed by Proposition 2 ½ and the fiscal limitations of the state.

Another factor that eroded the effects of the percentage equalization formula was the provision forbidding any school district from receiving less than 115% percent of the amount of aid they received the previous year (Zollo, 1978). The net result was that wealthier districts were able to produce leeway funds, i.e., funds that generated additional revenues beyond those required and were at the discretion of local towns to decide how to spend. Unfortunately, poor school districts did not produce leeway funds and were forced to ask for tax overrides that only brought them up to foundation level spending due to an inadequate tax base. Consequently, Proposition 2 ½ undermined public education, leaving the only recourse for these communities to be legal action in order to receive adequate funding for their schools.

In light of the inequity caused by Proposition 2 ½ and the state's Need-Based School Funding Formula, a class action suit was filed against the Massachusetts' Department of Education. On June 15, 1993, the Massachusetts Supreme Judicial Court, decided *McDuffy v. Secretary of the Executive Office of Education*. In *McDuffy*, the court found that the state's education clause provided a duty for the state to provide an adequate education to all students and that the state was failing to meet that duty. The court then identified certain factors to determine whether the state was providing an adequate education including: a) sufficient oral and written communication skills; b) sufficient knowledge of economic, social, and political systems; c) sufficient understanding of governmental process; d) sufficient self-knowledge of his or her mental and physical wellness; e) sufficient grounding in the arts; f) sufficient training or presentation for advanced studies; and, g) sufficient level of academic or vocational skills. Each of these categories would later receive greater attention within the state's curriculum frameworks. The court then deferred to the legislature to create a constitutional system.

The Massachusetts State legislators were well aware of the inequities resulting from the introduction of Proposition 2 ½ and the pending *McDuffy* case. In an effort to avert catastrophe, the legislature drafted and passed the 1993 Education Reform Act which was designed to equalize school funding throughout the state.

The Massachusetts Education Reform Act of 1993

Three days before the Supreme Judicial Court ruled on the *McDuffy* case, Massachusetts' legislators passed the 1993 Education Reform Act. It was an emergency statute, which prevented the courts from forcing the Legislature to involuntarily make changes in its school funding formulas. This tactic was used by the Commonwealth to prolong the *McDuffy* court ruling for 15 years. In June of 1993, the Education Reform Act was signed into law by Governor William Weld. The purpose of the Education Reform Act is to provide better schools and a better education for its young people. The Act introduced 80 initiatives, which can be summarized within 5 over-arching goals that: a) ensure that all students achieve high standards, b) enhance the quality and professionalism of teachers, c) support excellence and accountability in all schools, d) streamline and ensure compliance with state and federal regulations, and e) create a statewide infrastructure of support for schools.

To achieve these goals, the Education Reform Act is guided by a seven year plan, which invests an additional $1.3 billion into schools in an effort to equalize per pupil spending at $5,500 across the state by the year 2000. The Massachusetts Business Alliance had initialy recommended a foundation level of $7200/pupil based on their calculations. According to the most recent published reports, the 1993 Education Reform Act seems to be meeting its goals. Yes, Massachusetts's 1993 Education Reform Act has improved many districts across the state, but that change is relative to where they began. In the January 1999 edition of Education Week, Massachusetts received a D in the area of equity of resources.

In the year 2000, the state will be able to say it has improved education, but consistent with its history, Massachusetts will not be able to say it has created equal education for everyone because poorer districts will not have the revenue base to generate the $5500/pupil even if at RLE. Supporting state aid will cease in 2000 and only the foundation budget will remain. In order to reach this goal, the state relies on cities and towns to tax at the required local effort (RLE) to generate the revenue necessary to reach the $5500/pupil expenditure level. The dilemma, alluded to earlier in this paper, concerns whether local districts will actually be able to realize this goal, particularly given the past effects of Proposition 2 ½. Unfortunately, the educational finance problems are not limited to Proposition 2 ½. There are other confounding factors that will be discussed in the section that follows, which impair Massachusetts' ability to achieve equity.

The Massachusetts School Finance Formula

The foundation formula or Chapter 70 aid provides each district with "base aid" that was determined by the amount of state aid the town received in 1993. Next, a school district is required to develop a foundation budget that consists of the sum total of the following: payroll, non-salary expenses, expanded services, extraordinary maintenance, book and equipment costs, and professional development.

Once a foundation budget is developed it is subtracted from the money the district actually spent the previous year. The difference represents the spending gap, between the state mandated $5,500 and the district's current funding level.

This information is used to create a district profile that is applied to the following four categories:

1. *Above Foundation/Above Effort*: these districts already spend $5,500 per pupil and tax at or above the required local effort (RLE) of $9.40 per $1,000. They are eligible for minimum and equity aid.

2. *Below Foundation/Above Effort*: these districts are taxing above RLE, but are unable to fund the foundation level. They are eligible for foundation and equity aid.

3. *Above Foundation/Below Effort*: these districts fund the foundation level of $5,500, but do not tax to the RLE. These districts must increase their contribution by their 2.6% municipal growth factor. They are eligible for minimum aid.

4. *Below Foundation/Below Effort*: These districts neither tax to the RLE or fund the foundation level of $5,500. These districts must raise their required local effort to a rate determined by the state as a symbolic gesture of support to education at the very least. Although poorer districts may indeed support education, taxing at the RLE may not be enough, nor may not be possible without going to referendum to over-ride proposition 2 ½. They are eligible for foundation aid.

Once a district has been categorized it is eligible for the following state aid packages:

1. *Minimum Aid*: given to districts that fund the $5,500 foundation level, and do not need state aid.
2. *Foundation Aid*: new aid given to districts below $5,500.
3. *Equity Aid*: given to districts that tax above the RLE; the city does not have to use it for education.
4. *Overburden Aid*: given to cities with low property wealth, and low tax effort.
5. *New Regional Aid*: given to districts that voluntarily form regional school districts.
6. *School Choice Aid*: given to districts that are under foundation and are losing students to other district- reimbursement.

On October 8, 1998, a class action suit was filed against the Board of Education by Ameilia Lopez in Massachusetts' Supreme Judicial Court challenging the compliance of the 1993 Education Reform Act with *McDuffy*. *Ameilia Lopez, et al. v. The Board of Education* (SJ 98-0584 (1999)) argues that the minimum local contribution required of the less affluent districts is too high. The per capita income component of the formula is based on district averages, which increased the city's minimum contribution. This information is inaccurate because it can be skewed by one or two large incomes in less affluent communities. A better descriptive statistic would be the median income of a community because it is less sensitive to larger incomes, hence more accurate.

In addition, the amount of gross overburden aid to less affluent districts is too low because it is based on average annual per capita income, which is based on data generated in 1989 by the Bureau of Census. This statistic severely penalizes all cities whose average adjusted property valuation per pupil exceeds 120% of the average adjusted property valuation in the Commonwealth, unless that city is below the state average. The case sites Barnstable as a district that lost $2,000,000 in overburden aid because its average per capita income exceeds the state average by $104.

Another area of concern is base aid. The logic for determining base aid is not clear because it assumes that the amount of state aid received by local school districts sufficiently supports school operations. This was not the case. During the early 1990's the state was still recovering from a recession that forced school funding to drop to a historic low of 25% (Anthony, 1994). In addition, poorer towns were already operating schools at funding levels deemed unconstitutional by the State Supreme Court. This means that poorer communities are already behind their wealthier counterparts.

Lastly, the case mentioned that imbedded in the foundation calculations is the foundation enrollment figure (G.L.c.70.s2). This figure is based on the actual enrollment of a district that is reported in October of the previous year. This number does not account for increases in enrollment of fast growing districts. In addition, the Education Reform Act does not include funding for new services required by the Act such as testing, curriculum development, and increased time on learning. The issues outlined in *Lopez* challenge the existence of statewide equity, however, other inequities not associated with this case will go unexamined and remain hidden unless local level microeconomic analyses are undertaken.

Local Control and Discretionary State-Level Contributions in School Finance

The answer to whether or not there is a role for local control depends on whether adequacy or equity is the issue. It is reasonable to assume that when a state adopts a foundation program, equity is the driving force. However, there appears to be a disturbing trend where the equity base of the foundation model is being confused with adequacy. States are beginning to argue that their equity commitment is met if all districts are operating at the foundation level regardless if districts are operating well above that level. This is quickly becoming the case in Massachusetts, this is not the case, particularly given the role of local control and state level discretionary spending.

The Massachusetts formula does not account for local control, i.e., local contributions to or deductions from education. The foundation formula only achieves a minimum level of equity by assuring all districts $5500/pupil. This equity, however, rapidly evaporates when towns and cities are permitted to make significant decisions that impact contributions to education. Some towns choose to exceed the $5500/pupil spending level while other towns, though well intentioned, are unable to enjoy the same leeway funds generated by their wealthier counterparts who exert the same effort because even with taxing at RLE enough necessary revenue is not generated.

Local control also does not guarantee all the dollars that should reach the schools do. Most districts cannot completely cover their operating costs with the foundation program alone; they must rely on the town finance committees to support their budget requests. This leads to competition among town departments (e.g., fire, sanitation, public works, leisure and recreation) for resources.

At the state level, Additional Assistance monies exist in the gray area called political discretion. Generally, Additional Assistance aid is not used to support local schools, but does reduce the amount of competition between education and town services, in effect making more money available for education. Unlike Lottery Aid and the Chapter 70 Aid, which are distributed via a formula, Additional Assistance aid is not. The amount of Additional Assistance Aid representative districts receive is dependent on the political process. Since 1997 the state has distributed approximately $269,255,479 in Additional Assistance monies. Of the total amount of Assistance Aid distributed, Western Massachusetts (Northampton, Amherst, Chesterfield, Goshen, Hadley, Hatfield, Huntington, Pelham, South Hadley, Westhampton, Williamsburg, Ashfield, Bernardston, Buckland, Colrain, Conway, Deerfield, Gill, Greenfield, Leverett, Leyden, Montague, Shelburne, Shutesbry, Sunderland, Wendell, and Whately), which is represented by Senator Stanley Rosenberg, received $1,239,349. Senator Thomas Birmingham's district in Eastern Massachusetts (selected precincts and wards in Cambridge, Everett, Somerville, Boston, Chelsea, Revere, and Saugus) received $268,016,085 in Additional Assistance. Using state census data, the net effect was Senator Birmingham's district receiving $317 per capita and Senator Rosenbergs district receiving $8 per capita. There are many arguments that could be generated to justify such a discrepancy but it is not our purpose in this paper to evaluate the merits of those arguments. Rather our purpose is to highlight the effects this money can have on funding education. While it was stated earlier this money is not necessarily earmarked for education, the potential educational effect that could be realized is $2,820 per student in Senator Birmingham's district and $62 per student in Senator Rosenberg's district. Special interest politics are still playing a major role in funding education in the Commonwealth.

Equity, Adequacy, and Local Control

In this paper, we have considered the effects of tax and educational reform efforts and litigation, as well as the vagaries of local and state governing processes. Unfortunately, none of these separate actions have resolved the equity issues in question. These fragmented efforts have failed to remediate the fiscal inequities, i.e., while the foundation model attempts to introduce a certain level of equity it fails to regulate the amount of local leeway, nor does it regulate how additional assistance monies are dispersed. At most, Massachusetts has achieved a minimal level of adequacy, but that too may be threatened in 2000 when the additional assistance districts have received through education reform is discontinued. Poor districts taxing at the RLE still may be unable to raise the necessary revenues to achieve foundation level funding.

This suggests that the Massachusetts legislature needs to take a more proactive position with the laws it passes by cross indexing new laws with existing laws and rules and regulations if the desire is to achieve equity as defined by *McDuffy*. The net effect would be the creation of a seamless, less fragmented funding system. As long as Massachusetts continues to embrace a culture of local control that permits unregulated spending, it is unlikely that existing inequities will ever be eradicate.

With New England communities built around the philosophy of local control and individual freedoms, it might be questioned if equity can ever be achieved. Garms, et al. (1978) were quite explicit about the tensions created among equity, efficiency, and liberty (choice). Choice, the hallmark of local control, will always threaten equity and efficiency if the result is disparate local educational funding practices not based on student needs. Efficiency will threaten choice and equity if the diversity of the educational community is not respected. It is no surprise then that when the issue of equity is raised there is a conflict with maintaining personal liberties, and in this specific case, local control. Equity will threaten choice and efficiency if funding the delivery of instructional services to students is a *one size fits all* approach.

It is possible to conceive of different ways equity can be achieved. It is important to point out that the terms equity and equality are often, but incorrectly, used interchangeably. Equality was initially used to describe equality of educational opportunity, meaning all students have the right to an education (Garms, Guthrie, & Pierce, 1978). Therefore, we use equality as sameness, but differentiate equity as sameness, fairness, and uniqueness.

Most school finance scholars define equity as "sameness" (horizontal), meaning everyone is treated alike, or equity as "fairness" (vertical), defined as treating different groups differently (Alexander & Salmon, 1995; Guthrie, Garms, & Pierce, 1988; Odden & Picus, 1992; Swanson & King, 1997). These types of equity have the potential to mask individual differences at the expense of organizational needs. A third source of equity recognizes individual needs, *equity as uniqueness* (Boscardin & Jacobson, in press). In this instance, the finance model is expanded to include an additional dimension that recognizes the unique individual needs of all students within a district.

Conclusion

If one wishes to achieve equity as uniqueness, local control and state level discretionary spending must be minimized while individual student differences are recognized and funded. However, if the focus is on adequacy, local control and state level discretionary spending is inconsequential as long as each town is able to generate the revenue necessary to provide foundation level funding. Probably the greatest pitfall in the Massachusetts school funding framework is that it does not eliminate tensions among equity, efficiency and choice (Garms, et al., 1978) and is promoted as creating equity among local school districts.

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MICHIGAN

You Can't Always Get What You Want: Property Tax Relief and School Funding in Michigan

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Prior to 1973-74, Michigan distributed unrestricted aid to local schools through a foundation aid system that guaranteed a minimum expenditure per pupil in every district. However, by 1973, Michigan's highest-spending district tripled the per pupil expenditures of the state's lowest spender. Facing disparities of this magnitude, along with a court challenge of the constitutionality of Michigan's aid system,[1] the legislature replaced the foundation formula with a guaranteed tax base (GTB) formula, effective for the 1973-74 fiscal year. In that first year, more than 90 percent of Michigan's school districts received GTB aid. By 1993-94, however, this percentage had fallen to approximately two-thirds and the ratio of per student spending between the highest- and lowest-spending districts had risen to the levels of the early 1970s.[2] Further, school property tax rates had risen to unacceptably high levels for many, and 122 districts were within four mills of the state's constitutional 50-mill limit.[3]

Michigan's Recent School Finance Reforms

Voter ambivalence toward Michigan's property tax and school funding systems was reflected in a string of 12 consecutive failed statewide ballot proposals spanning more than a decade in the 1980s and early 1990s. Then, in late July of 1993, in a stunning development, the Michigan legislature eliminated the local property tax as a source of operating revenue for the public schools. In mid-August, Governor John Engler signed SB1 into law, becoming P.A. 145 of 1993. The Act reduced K-12 operating revenue by $6.018 billion for local districts and $508 million for intermediate (generally countywide) districts. On March 15, 1994, Michigan voters approved a constitutional amendment (Proposal A of 1994) increasing the state sales tax from 4 to 6 percent. In addition to the sales tax increase, the state's flat rate income tax was lowered from 4.6 to 4.4 percent, the cigarette tax was raised from 25 to 75 cents per pack, and a per-parcel cap on assessment growth was set at the lesser of inflation or 5 percent (reassessed at 50 percent of market value on sale). Property taxes for school operations were reduced in most districts to 6 mills on homestead property and 24 mills on non-homestead property

On the allocation side, new legislation returned Michigan from a GTB formula to a foundation plan as the core of state school funding. A district's 1993-94 combined state and

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1 *Milliken v. Green*, 389 Mich. 1, 203 N.W. 2d 457 (1972); 232 N.W. 2d 711 (1973).

2 Wassmer and Fisher (1996), p. 92.

3 Citizen's Research Council of Michigan (1992). A mill in Michigan is equivalent to a dollar in tax paid per $2,000 of market value.

local revenue for operations (primarily local ad valorem property taxes, DPE state aid and most state categorical aid) provided the basis for determining its 1994-95 foundation allowance. The legislation provided that every district have a foundation of at least $4,200 per pupil.[4] In addition to establishing a minimum (local) foundation allowance, the legislation set a statewide basic foundation allowance at $5,000 per pupil for 1994-95. This spending level changes annually through application of revenue growth and pupil membership growth indices.[5] Districts spending more than the state foundation will receive per-pupil revenue increases equal to the annual dollar increase in the basic foundation allowance, while districts spending less than the basic allowance will receive increases up to double that amount. Thus, this basic allowance, which rose to $5,153 in 1995-96, $5,308 in 1996-97, $5,462 in 1997-98 and was frozen at that level in 1998-99, will constrain per pupil spending growth in more districts each year and exert a "range preserving" effect on interdistrict spending disparities.

In an effort to accelerate school spending in the lowest-spending districts, the Michigan legislature increased the minimum foundation allowance to $5,170 for 1998-99. During that year, 65 local districts received the minimum allowance, 148 districts had foundation allowances between $5,170 and the state basic allowance of $5,462, 105 districts were at the basic level and 247 districts exceeded that level. Accordingly, if the Michigan legislature maintains the current foundation formula and indices for annual changes in allowance level, 318 local districts will generate foundation allowances at the basic level, 247 will exceed that level by constant dollar amounts, and all districts will be limited to identical annual increases as determined by the revenue and membership indices.

Equity Effects

One stated long-run objective of Michigan's new school finance system is to raise all districts to the level of the basic foundation allowance and reduce interdistrict disparities in per pupil spending. This leveling up approach achieved measurable first year equalization effects. The coefficient of variation (standard deviation divided by the mean) and the ratio of the median to the mean in per pupil expenditure respectively for Michigan's 557 school

[4] The linear formula for each district's 1994-95 foundation is: 1994-95 revenue per pupil = 1993-94 revenue per pupil + ($250 - ($90 * (1993-94 revenue per pupil - $4,200) ÷ $2,300)).

[5] The revenue and pupil membership indices are combined into a "final index," which may be written as follows:

$$I = (R_t / R_{t-1})(M_{t-1} / M_t)$$

where I = final index
R_t = total school aid fund revenue in current year
R_{t-1} = total school aid fund revenue in prior year
M_{t-1} = total pupil membership in prior year
M_t = total pupil membership in current year

The annual basic foundation allowance is determined by:

$$BF_t = BF_{t-1} * I$$

where BF_t = current year basic foundation
BF_{t-1} = prior year basic foundation

districts equaled 0.23 and 1.20 prior to reform. In the year following the reform, these statistics equaled 0.21 and 1.17 respectively, indicating relatively minor equalization.[6]

The effects of leveling up are reflected in Table 1, which presents mean foundation revenue for each quintile of pupils in 1993-94 (the last year of the power-equalizing formula) and 1998-99. The quintiles were formed after rank-ordering pupils by the foundation allowance levels of their respective districts.

Table 1
Quintiles of Foundation Allowances (1997 dollars)

Quintile*	1993-94 Mean	1998-99 Mean	Difference
1	$4,536	$5,212	$676
2	5,063	5,395	332
3	5,605	5,648	43
4	5,929	5,920	(9)
5	7,528	7,295	(233)

Note: *Each quintile represents 316,910 pupils in 1993-94 and 337,200 pupils in 1998-99.
SOURCE: Prince (1997) and author's calculations. Data obtained from Michigan Department of Management and Budget.

The ratio of the fifth quintile to first quintile mean fell from 1.66 in 1993-94 to 1.40 in 1998-99, suggesting greater horizontal equity in the distribution of per pupil spending. An improvement in horizontal equity is also indicated by the equity measures presented in Table 2, below. Taken individually, each measure reveals greater horizontal pupil equity in Michigan as a result of school finance reform. The range and restricted range have been reduced by 20.7 percent and 18.4 percent, respectively, while the federal range ratio (a restricted range in which the top and bottom 5 percent of pupils are dropped and the remaining span is then divided by per-pupil expenditure at the 5th percentile) was reduced by 26.8 percent. The lower values of the coefficient of variation and the Gini coefficient also indicate greater horizontal equity.

Table 2
Horizontal Equity in Michigan's Foundation Grant Program (1997 dollars)

Equity Measure	1993-94*	1996-97	1998-99
Range	$7,495	$5,946	$5,656
Restricted Range	3,646	2,974	2,781
Federal Range Ratio	0.8343	0.6103	0.5433
Coefficient of Variation	0.2089	0.1665	0.1630
Gini Coefficient	0.1089	0.0842	0.0735
McLoone Index	0.8819	0.9226	0.9820

Note: *The foundation program was initiated in 1994-95. Figures for 1993-94 were calculated for comparability.
SOURCE: Prince (1997) and author's calculations. Data obtained from the Michigan Department of Management and Budget.

6 Wassmer and Fisher (1996), p. 94.

Although the equity measures discussed above differ in construction and focus (for example, the range, restricted range, and federal range ratio are concerned only with the total span of distribution and ignore all data between their respective extremes, while the coefficient of variation and Gini coefficient are concerned with the distribution of all data), each measure is appropriate when the policy goal is more equal educational resources for all.

In contrast to these measures, the McLoone index measures equality in the bottom half of the distribution, with the implication that the state's responsibility is to assure minimally adequate, rather than equal, spending in every district. Specifically, the McLoone index is a ratio of the actual total expenditure in all districts below or at the median expenditure to what the expenditures would be if all of those districts spent at exactly the median level. As such, perfect equity (i.e., exact equality of expenditures for all districts below the median) requires a McLoone index of 1.0, its maximum value. (All of the other equity measures have a value of zero with perfect equity.) For Michigan, the increase in the McLoone index from 0.8819 to 0.9820 indicates improved equity. This improvement is not unexpected in view of the "leveling up" effect of Michigan's foundation formula. Indeed, the formula is designed to achieve a McLoone index of 1.0, with more than half of Michigan's local districts precisely at the state basic foundation allowance and none below it by the year 2000-01. In this way, the Michigan foundation formula will have achieved a level of adequacy suggested by Odden and Clune (1998).

Revenue Adequacy and Stability

Now in its fifth year, Michigan's foundation formula has accelerated revenue growth for local districts with per pupil revenue below the state basic foundation level relative to those at or above that level, and slowed relative revenue growth for those above the basic foundation. Further, following a substantial increase in aggregate K-12 revenue in the first year of reform, overall revenue growth for Michigan public schools has been constrained by reform. From 1994-95 to FY 1997-98, the benchmark state basic foundation allowance rose at an annual rate of only 3 percent, only slightly higher than the estimated annual inflation rate of 2.8 percent over this period.[7]

In addition to these constraints on district foundation revenues, the finance reforms also placed tight limits on local revenue supplementation. When Proposal A was approved by voters, enabling legislation allowed for a local, unequalized enrichment millage, whereby local voters could approve up to three additional mills for up to three years. Such enhancements, however, are quite small. Moreover, since 1997, such millage must be approved, and such revenue shared, at the intermediate school district level (county or multicounty).[8] The cumulative effect of these reforms has been a slowing of per pupil

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[7] Kleine (1997), p. 2.

[8] The Michigan reforms, in effect, remove the school spending decision from local voters and give it to the state. For an economic analysis of this divergence between local spending preferences and state mandates, see Addonizio (1997).

revenue growth, particularly for districts with exceptionally high tax bases and per pupil revenue.

Concluding Observations

Michigan's school finance reforms were intended to accomplish four objectives: 1) substantially reduce property taxes; 2) increase the state share of total K-12 revenue; 3) reduce interdistrict disparities in per-pupil revenue; and 4) assure all local districts a minimum level of per-pupil revenue with which to meet state and local education standards, including outcomes-based school accreditation standards as measured by new state assessments of student achievement.

It appears that the first two objectives have been accomplished. Proposal A reduced total property taxes by about 26 percent. For homeowners, the reduction is about 32 percent (somewhat smaller for the approximately 30 percent of Michigan taxpayers who itemize for federal income tax purposes), while the cut for businesses is about 13 percent (Kleine, 1997). Further, the state share of K-12 revenue has risen from 45 percent in 1993-94 to nearly 80 percent in 1998-99, placing Michigan second among states in the state-financed portion of school funding. Measurable progress has also been made toward objective three, as indicated by the equity measures presented above.

Progress toward objective four, however, is more problematic. While the reforms established minimum funding levels for local districts and substantially increased aggregate K-12 revenue in 1994-95, including proportionately large increases for low-spending districts, aggregate revenue growth has slowed since then. With new constraints on local revenue growth and a greater reliance on more income-elastic revenue sources, overall real spending levels could fall during a recession. Centralization and equalization of public school funding along the lines of the Michigan reforms have led to slower revenue growth in other states.[9] Should Michigan experience a similar trend, residents of traditionally high-spending districts may turn to booster clubs, local education foundations, private spending or other means to supplement public revenue sources (Addonizio, 1998).

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MISSISSIPPI

Current School Finance Issues in Mississippi In 1999

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Background and Current Context Surrounding The 1999 Legislative Session in Mississippi

For too many years now Mississippi's public education system has found itself ranked last or near to last nationally on any number of indicators intended to measure or reflect educational performance. In the last ten years public pressure has been steady, intense, and growing not only to improve the state's public education system but also to hold it accountable in terms of outcomes and performance. This decade has not only seen an elaborate school district accreditation system established for the state's 152 school districts that assigns school districts to one of five accreditation levels, but the development and publication of an annual accountability indicator system called the Mississippi Report Card. This document contains some school level data but mostly district level data and associated rankings on over sixty fiscal, educational system, and outcome variables.

In addition, there has emerged both a growing teacher and administrator shortage in certain regions throughout the state, principally in the Delta and certain northern rural and sparsely populated areas. The most recent information from the Mississippi Department of Education indicates that 42 of the state's 152 school districts, or approximately 28 percent reported a current teacher shortage in 1998. This growing teacher shortage is also reflected in the number of teachers in the state holding "emergency certificates" which indicates they do not hold valid teaching licenses. Currently, the percentage of teachers that are currently teaching who hold an emergency certificate stands at approximately seven percent statewide and only two of the state's school districts have no teachers with any type of emergency certificate.

Mississippi's state constitutional education clause is perhaps one of the weakest if not the weakest constitutional clauses in the nation regarding the state's responsibility to provide a public education to its residents. It states that "the Legislature shall, by general law, provide for the establishment, maintenance, and support of free, public schools upon such conditions and limitations as the Legislature may prescribe." Such a clause may explain, in part, why the state has yet to see a judicial challenge to its school finance system.

In 1997, the state passed legislation, which many people saw as an attempt to postpone or eliminate possible judicial action regarding the state's method of funding education. It was called the Mississippi Adequate Education Program (MAEP). The MAEP called for school districts to receive a minimum of $223 million over a six-year period of time, which began, in fiscal year 1998 and ends in fiscal year 2003. This funding initiative was limited to or targeted for three areas: (1) capital improvement projects, (2) retiring or refinancing debt service, and (3) technology or instructional purposes.

These initiatives along with numerous others aimed at improving educational performance have not had the anticipated impact nor been perceived as particularly outcome effective by the public. In 1998, a growing and increasingly visible teacher shortage emerged and nearly 40, or one quarter of the state's 152 school districts, received an annual accreditation rating that placed them in a category of unsatisfactory, with twenty school districts at risk of being placed into state conservatorship.

In response to the growing teacher shortage the state passed the Mississippi Teacher Shortage Act of 1998 aimed at easing the teacher shortage in the Mississippi Delta area and other sparsely populated regions. The Act provides four years of financial assistance and other benefits to recipients that agree to teach in a geographic teacher shortage area for three years. Scholarships under the Act pay for tuition, student housing, meals, books, materials, and fees. Low rental housing will be provided in areas with the greatest teacher shortages, with special home loans made available to participants who want to purchase a home. Recipients are also given up to $1,000 in moving expenses when they begin teaching. Finally the Act gives participating teachers an opportunity to pursue a Master's or Specialist degree at certain Mississippi colleges and universities that have agreed to participate in the teacher shortage program. Participants pursuing advanced degrees receive tuition, fees, materials, and books at no cost.

Against this backdrop and context of mediocre performance, increasing public impatience, and apparent need for yet another round of educational reforms, coupled with a real and growing shortage of teachers and administrators, the 1999 legislature met to draft and pass legislation addressing numerous issues and policy needs, including those facing public education.

Major 1999 Legislative Outcomes:
A Focus on Improving Student Achievement and Increasing Teacher Supply

Not only did the 1999 legislature pass legislation raising teacher salaries by approximately eight percent across the board, but it also passed a comprehensive bill entitled the Mississippi Student Achievement Improvement Act. The Act calls for a substantial change in the current accreditation system and several other related factors thought to be associated with student achievement and educational system performance at the district and school level. In essence, the Bill puts into place a new accountability system that focuses on individual schools and continued student growth. Its aim is to encourage steady progress in all school districts and schools, including those at the top.

Senate Bill 2156 is both ambitious and comprehensive in scope. It authorizes the State Board of Education to:

- Develop and administer student assessments for graduation
- Establish student proficiency standards for promotion to grade levels leading to graduation
- Extend student assessment contracts for up to ten years

It also requires the State Board of Education, on or before July 1, 2000, to implement a performance-based accreditation system for school districts and individual schools that includes:

- High expectations for students and high standards for all schools with a focus on the basic curriculum
- Strong accountability for results with appropriate local flexibility
- Accountability at both the school district and school levels
- Individual schools held accountable for student growth and performance
- Annual performance standards set for each of the schools with the performance of each school measured against itself through standards set for it
- A plan for providing recognition and rewards including money incentives to such schools, subject to appropriations by the Legislature
- A determination of the appropriate role of the State Board of Education and State Department of Education in providing assistance and possible intervention for schools failing to meet their standards
- A comprehensive student assessment system to implement these requirements
- Use of a numbering classification for school district and individual school performance levels

Senate Bill 2156 also requires the State Board of Education to establish an Improving and High Performing Schools program for identifying and rewarding public schools that improve or are high performing:

- Provides for financial salary incentives for certified and non-certified staff for schools which meet the performance criteria;
- Requires the State Superintendent and State Board of Education to develop a comprehensive accountability plan to ensure that local boards, superintendents, principals, and teachers are held accountable for student achievement. Incentive rewards will be made only after the accountability plan has been developed and approved by the State Board of Education, and necessary statutory amendments have been made

In addition, the Bill calls for several changes in methods used for student assessment. These include:

- Providing informal K-2 assessments in reading, mathematics and language
- arts for diagnostic purposes only and not used for accreditation purposes
- Moving the testing from Fall to Spring
- Changing from only norm-referenced testing to criterion-based testing
- Pre-testing 2nd grade students in reading, mathematics and language arts to provide baseline data for measuring growth at the end of 3rd grade
- Using criterion-based assessments in grades 3-8 in high priority areas to:

- Align assessment and state curriculum
- Report individual student performance
- Establish baseline data for measuring student/class/school growth
- Serve as a post-test to determine if the school met its expected growth goal.

- Requiring students in grades 3 and 7 to pass state benchmark requirements before promotion to next grade
- Requiring students in grades 9-12 to pass mandatory end-of-course tests in Algebra I, Biology I, US History and English II with a writing component, in order to obtain a high school diploma;
- Continuing to participate in NAEP testing to provide national comparisons
- Include norm-referenced items.

A new accreditation and accountability system that focuses on the school rather than the school district is another provision of the Bill. This system:

- Creates a school-based accountability system that will place the responsibility for student performance at the individual school level
- Focuses on overall student achievement by measuring each school's growth expectation and student proficiency
- Removes process standards from the accreditation model but maintains them as State Board policy
- Requires each school to develop a School Improvement Plan encompassing both a plan for student performance and a school safety plan;
- Maintains a school district accountability system that will be correlated to the performance of its schools

There is also a school recognition and reward component in the Bill. This calls for:

- A recognition program for growth schools
- A recognition program for schools with high levels of student proficiency
- Monetary rewards for schools exceeding their growth expectations for schools having extremely high numbers of proficient students. For example, a Level 5 school would receive the monetary reward even if it did not exceed its growth expectation

Finally, Senate Bill 2156 strengthens and clarifies the conservator's role and responsibilities where school districts have been placed in conservatorship by the state because of low performances.

Concluding Remarks

There is not only a sense of urgency and impatience embodied in Senate Bill 2156, but also a clear legislative desire to hold schools, teachers, and administrators strictly accountable for student achievement outcomes. This Bill promises to be an extremely costly reform to implement both monetarily and in terms of teacher and administrator documentation time. Implicit in this Bill is the assumption that holding systems and persons accountable will, in and of itself, improve the performance of those systems and persons. This is likely to be an erroneous assumption that fails to produce its intended consequences if those systems and persons are not provided sufficient resources to improve their performance. Substantial additional resources will be needed to make accountability work in Mississippi. Ultimately, however, what is most needed for reforms and accountability to work in Mississippi is a perspective, which views educational improvement as incremental and long term in nature.

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MISSOURI

School Funding Issues in Missouri, 1999

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Introduction

The two school funding policy issues that have dominated legislative discussion and debate in Missouri during recent years have involved the continued funding of desegregation plans in St. Louis and Kansas City and the continued quest for fiscal equity among the state's 522 school districts.

St. Louis School District Desegregation Case

In March 1980, the Eighth Circuit Court in Adams v. United States reversed a 1979 District Court decision related to St. Louis School District desegregation efforts and suggested that the District Court consider the following techniques when developing a desegregation plan: compensatory and remedial education programs, expanded permissive transfers within the district, development of a comprehensive program of voluntary interdistrict transfers from St. Louis County schools, and the creation of additional magnet schools. Implementation of the desegregation plan resulted in allocation of $8,530,000 of state funds for the St. Louis School District desegregation efforts during fiscal year 1981. Allocation of state funds earmarked for St. Louis desegregation has continued for twenty years with annual allocations reaching a peak of $146,410,000 in fiscal year 1998. According to the Desegregation Services Section of the Missouri Department of Elementary and Secondary Education, the total allocation to date exceeds $1,700,000,000 (MDESE, 1999).

Implementation of the St. Louis City School District/St. Louis County School Districts desegregation plan began in 1983. This plan includes eighteen county school districts and reached a peak of 15,163 transfer students in the fall of 1993. Over the past ten years, the number of transfer students has remained relatively steady, involving more than 14,000 transfer students each year.

Missouri Senate Bill 781 which became law in August 1998 was intended to provide a speedy settlement to the St. Louis desegregation court case. This law allowed the City of St. Louis to vote an increase in its sales tax which would produce approximately $23,000,000 additional revenue for the St. Louis School District. A revision in the state school foundation program related to at-risk students is projected to produce $40,000,000 of additional funds for the school district. City of St. Louis voters approved the sales tax increase on February 2, 1999, thereby ending state funding specifically earmarked for St. Louis School District desegregation.

Kansas City School District Desegregation Case

In 1984 U.S. District Court Judge Russell Clark issued a remedial order concerning desegregation efforts in Kansas City, and the first state desegregation payment in the amount of $13,000,000 was made in June 1986. State payments for the Kansas City School District desegregation plan increased substantially each year from 1986 through 1995 with a peak allocation of $175,787,337 during fiscal year 1995. During the past three years payments have decreased considerably and are estimated to total $56,000,000 for the 1999 fiscal year. Since 1986 state payments have totaled $1,518,951,436 (MDESE, 1999).

The Kansas City desegregation plan differed greatly from the St. Louis plan which depended largely on the transfer of a substantial number of city students to suburban school districts. Instead, suburban students are recruited to attend the Kansas City magnet schools with the state paying for transportation and tuition costs. The state has paid 75% of all program costs and 50% of all capital improvement costs in Kansas City.

In February 1995 the Federal District Court agreed to suspend further court action until September 1995 while negotiations to end the Kansas City case proceeded. The U.S. Supreme Court ruled in June 1995 that the Federal District Courts in Missouri had exceeded their authority in the state desegregation cases. A tentative agreement was reached in March 1997 to continue to fund the Kansas City desegregation program during fiscal years 1997, 1998 and 1999 with state payments scheduled to end by fiscal year 2000.

Missouri's Continuing Quest for Fiscal Equity

A dramatic change in the way the state of Missouri finances its public schools occurred with the 1993 decision of Circuit Judge Byron Kinder. In this case, Committee for Educational Equality v. State of Missouri (1993, p. 2), Judge Kinder stated:

> The Court finds and concludes that the amount of money available for schools can and does make a difference in the educational opportunities that can be provided to Missouri children. The present Missouri school system does not provide an "equal opportunity" for each Missouri child as guaranteed by the Missouri Constitution. Vast disparities exist in the funding and resources available for education in the approximately 540 school districts in the Missouri school system—with available annual revenues on a per pupil basis ranging from $9,750.53 down to $2,653.04, one of the most disparate situations of any state in the United States, and with facilities ranging from the "golden" to the "god-awful." Those disparities are not because of differing student needs, but instead are associated with local property wealth or are simply irrational.
>
> Missouri does not provide an educational opportunity for each Missouri child "without regard to wealth, birth or accidental condition or circumstance" which is implicit in the Jeffersonian concepts ingrained in our Constitution. The present system of financing the public schools of Missouri does not pass constitutional muster.

Judge Kinder's contention that Missouri funding is disequalized is supported in a study conducted by the Educational Testing Service which indicated that only Texas, Ohio, New York and Pennsylvania had higher school spending disparities than Missouri. This report showed that Texas and Ohio had the greatest disparity of expenditures among the 50 states with a disparity ratio of 2.8 between the ten school districts that spent the most per pupil and the ten school districts that spent the least. Missouri had a disparity ratio of 2.3, with a ranking of fifth highest among the 50 states. Delaware, Nevada and Maryland had the lowest disparity ratio at 1.2. The disparity ratio of all fifty states, as reported in the Educational Testing Service (ETS) report, is shown in Figure 1 (Barton, 1991, p. 10).

The statement by Judge Kinder that school expenditure disequalization in Missouri was "getting worse" has been illustrated by previous studies conducted by the authors. The disparity ratios for the past eleven years are shown in figure 2. It is clear that the gulf between the ten highest spending school districts and the ten lowest spending school districts grew wider from 1987-88 through 1991-92. With the anticipated passage of financial legislation in 1992, the disparity ratio decreased from 3.1 to 3.0. After Senate Bill 380 was passed in 1993, the legislature increased its funding level each succeeding year for four years until the new state formula was fully funded for the 1996-97 school year.

Data in Figure 2 show that the disparity ratio has dropped steadily from 3.0 to 2.2 over the five-year implementation. It should also be noted that the average yearly increase in spending of the ten lowest spending school districts has increased from 2.7% per year for the six years prior to the passage of Senate Bill 380 to 11.5% per year for the five years since passage of Senate Bill 380. Similarly, there has been a change in the rate of increase of the ten highest spending districts from an average of 8.2% per year from 1987-88 through 1992-93 to an average increase of only 2.2% per year from 1993-94 through 1997-98.

The financial data related to the last five years clearly show a reduction of the disparity ratio of Missouri schools and a dramatic increase in the spending patterns of the lowest spending school districts. The disparity ratio of 2.2 is the smallest ratio for the state of Missouri for the past eleven years.

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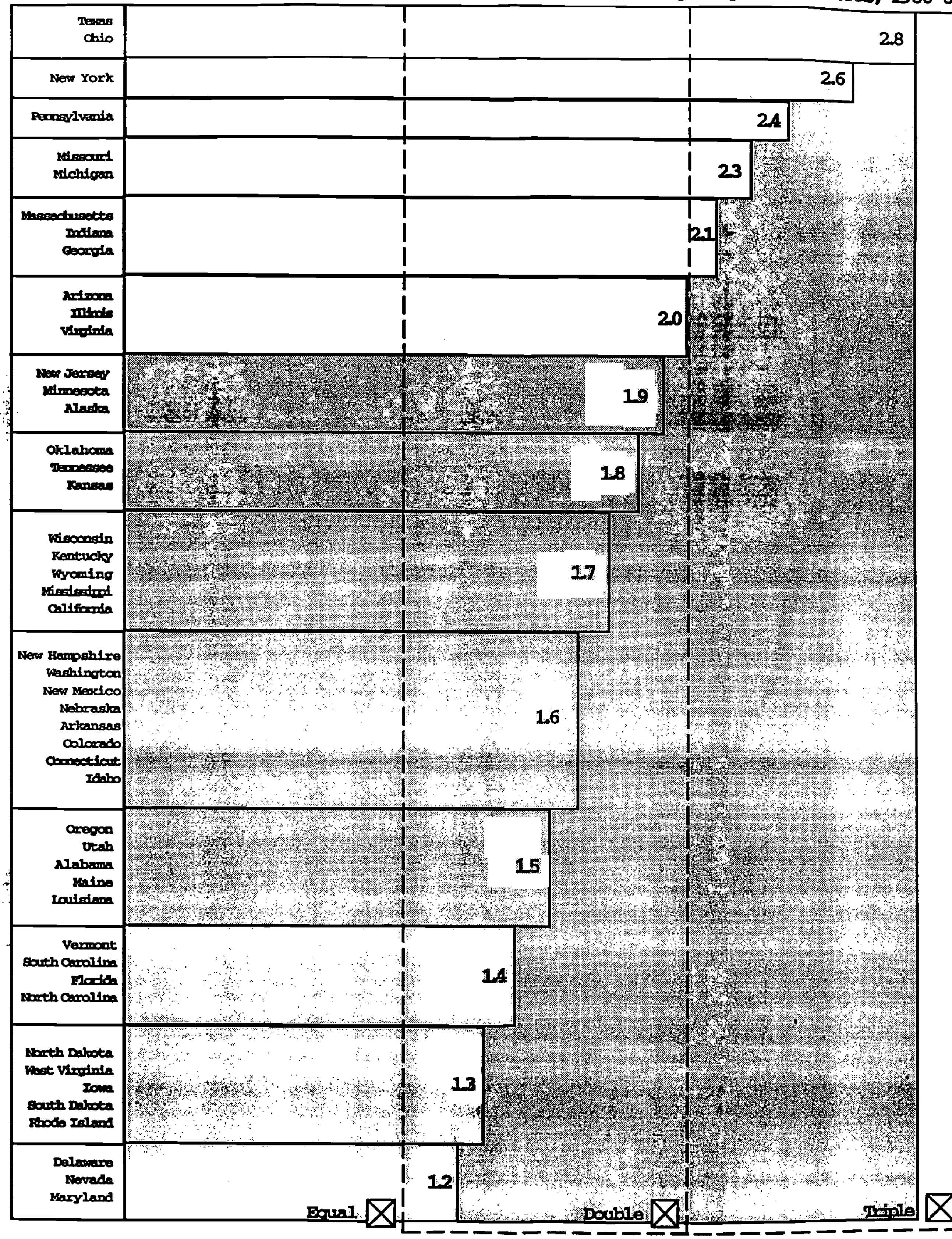
FIGURE 1: SCHOOL SPENDING DISPARITIES: THE NATIONAL PICTURE

Ratio of Education Spending Differences Between High and Low Spending Groups of Districts, 1986-8



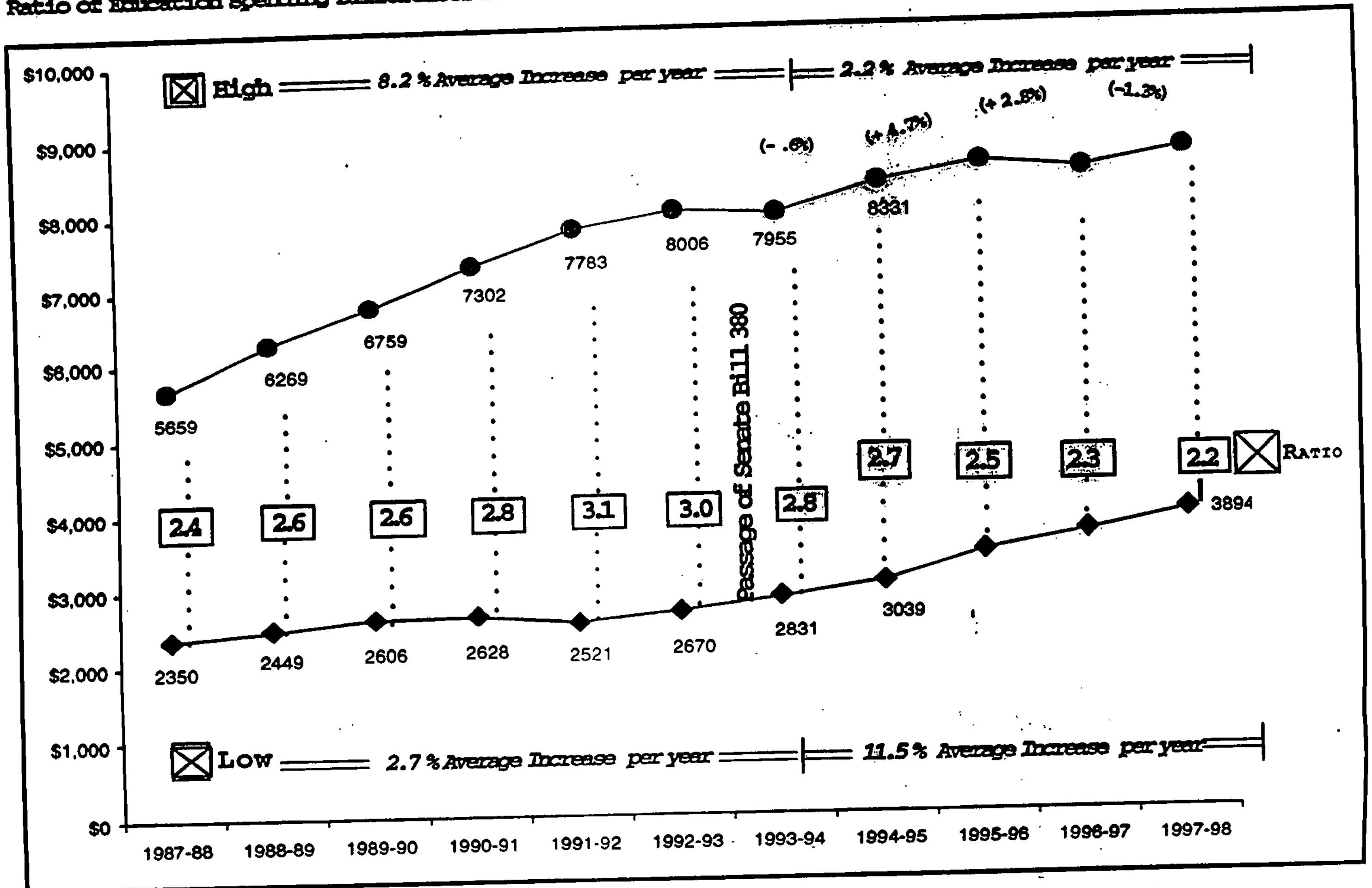
Spending Ratios of High to Low Spending Districts, By State

Note: *Ratio is the average expenditure of the 10 highest-spending districts in the state divided by the average expenditure of 10 lowest-spending districts in 1986-87*

Source: Congressional Research Service in the Education Testing Service. The State of Inequality, 1991.

FIGURE 2: SCHOOL SPENDING DISPARITIES: THE MISSOURI PICTURE

Ratio of Education Spending Differences Between High and Low Spending Groups of Districts, 1987-88 through 1997-98



Note: Ratio is the average expenditure per ADA of the 10 highest spending districts in the state divided by the average expenditure per ADA of the 10 lowest spending diastricts from the 1987-88 school year through the 1997-98 school year.

Source: Missouri Department of Elementary and Secondary Education

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MONTANA

Montana 1999: A time of voter unrest

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History

In 1972 Montanan's adopted a new constitution, replacing its' original 1889 version. Along with this new outline for state governance, several strong concepts were adapted that would have far ranging affect in subsequent years.

A notable change for education was seen in language further defining the state's responsibility toward educating its children. This language placed upon the legislature the responsibility to provide a "quality education" for its' children as well as it should be "distributed in an equitable manner". It was not until 1988, however, that the issue of equity became an issue with the State court decision in *Helena District #1 v. State of Montana.*

A second concept developed throughout Montana history is populist language, in tradition and in Constitution, providing citizens of the State the ability to directly enact laws or changes to the Constitution itself by/through the initiative process.

Montana has a long history of populist leanings dating to the first state governor. Private citizen rule is a cornerstone of many Montana institutions - education being just one. Local citizen control is not only talked about in Montana but is fiercely debated and ardently practiced.

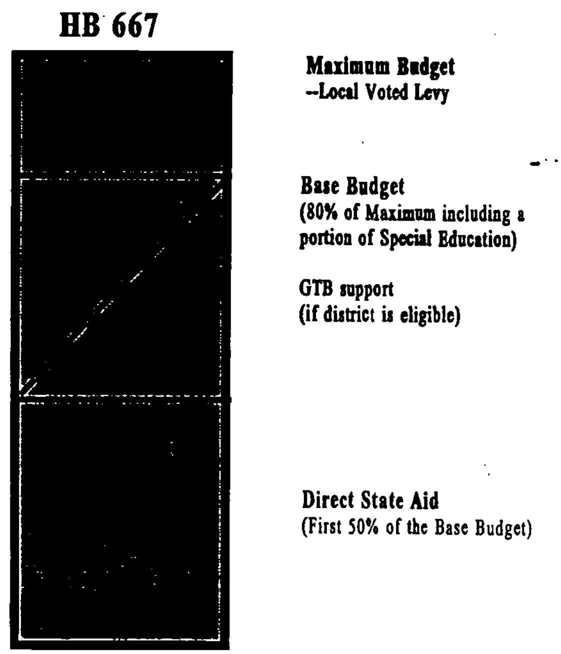
School Finance

Montana schools are financed by a revenue allocation model incorporating a foundation model. The unit used to determine the number of students is a calculation of membership called Average Number Belonging (ANB) - a similar calculation to Average Daily Membership (ADM).

In 1993 Montana adopted a method to finance the general fund of its schools that proposed an approach to achieve equity to a level required by the Loble court in 1989 *(Helena #1 v. State).* The model requires districts to develop a budget between a defined base budget (minimum) to a budget maximum determined by a districts unique ANB.

District budgets are annually determined using parameters that determine a Maximum Budget allowed, as well as a minimum budget allowed (BASE BUDGET). Once these parameters are determined, using the foundation program system, a districts actual budget is based upon both the number of students (ANB) and the previous years budget.

Growth is capped at 4%. This additional budget authority must be approved by the voters. However, budgets are capped at the predetermined Maximum Budget parameter. The 4% growth is thus allowed only if the growth does not exceed the maximum budget.



To fund this defined budget the first level of revenue includes a direct appropriation from State's the School Equalization fund. This amount is equal to 40% of the budget maximum. (Since the base is set at 80% of maximum, the direct aid is 50% of the base). This fund is financed primarily from a 95 mill statewide levy (which is fully recaptured) as well as legislative appropriation from the State's General fund.

A second level of revenue is generated using Guaranteed Tax Base (GTB) support if a district qualifies. This level of revenue is obtained from both state and local sources. The local taxation is permissively levied. The GTB support varies depending upon the relationship between a district's local taxable value per student and the State GTB ratio per student.

Special Education is funded on a "per ANB" model. Each year the finance model simply divides the State's appropriation by the total number of students in the State and apportions an equal amount per ANB to each school district. It is included in the calculation of the adopted budget, Base Budget and Maximum Budget.

The last level of revenue is totally derived by local effort with a voter approval. This voted levy is presented, if a district chooses a budget that exceeds the revenue provided by the two levels above, annually.

1998-99

In the summer of 1998 an initiative (CI 75) was drafted that if passed by the voters would require express voter approval of any measure that would increase "taxes or fees", provide the voter who challenges a governing body for any mistakes that would increases taxes with civil redress (those members of councils, boards etc would be personally liable for such redress). Further, the vote would only take place at either the primary or general elections. This change in the constitution was effective immediately upon passage.

An initiative adopted in 1997 was very instrumental in CI 75 being adopted (I 115). This measure made it illegal for anyone except individuals to pay toward effecting any initiative. In other words, no business or governmental agency could influence in any way the voters for/against any initiative. It was to be totally financed by private individuals.

CI 75 was passed by the voters by a 51- 49% margin in a very hotly contested and debated race. Even with the most popular governor in the State's history actively campaigning against the measure, it passed.

This immediately sent shock waves through all segments of government, as it effected every entity that would "tax or set fees". Even though education was particularly hurt by this approach, given the educational litigation that preceded it as well as a fairly defined set of law, cities and towns would be even more compressed because of CI 75's passage.

The department of revenue estimated over 200 changes to existing laws would need to be made to comply with CI 75. It was also estimated that only 75% of the measure brought before the citizens would pass.

Serious questions began to surface in subsequent debate as to how this new mechanism would even work in practice. Questions like how would the vote be taken, exactly when, would each measure need to be on separate ballots, as wording suggests.

Drafters of the initiative modeled its language from a similar law in Colorado they believe works for citizens of Colorado. Assuming this to be true, existing statutes do not match from state to state, nor body of case law that must be addressed. It appears not enough time was put into the mechanics to make the Montana model match those circumstances.

The Montana School Board Association among others filed suit and the Montana Supreme Court has agreed to hear the case. Oral arguments were heard on February 16,

1999. The Supreme Court ruled this constitutional initiative "fundamentally flawed" not having met the full requirements of the constitution in drafting the initiative, and unanimously set it aside. This prompted sponsors of the initiative to begin discussions of mounting another initiative requiring a vote to hold the State's third constitutional convention.

Concurrently, Montana began its biennial legislative session January 2, 1999. The governor proposed a 1.5% funding increase for high school district foundation entitlements and a 3.5% funding increase for elementary district foundation entitlements. (Each year of the biennium).

In Montana, a supportive governor does not mean support legislatively, even in a State where both the House and Senate are of the same party as the governor. In the session of 1997 the governor's proposal for education was slashed. The House speaker and fellow republican openly challenged the governor as to liberal.

Two specific approaches moved through the system simultaneously. The first bill, SB 100, was the governor's proposal. This bill was altered in the Senate to reduce the amount of the entitlements to allow the State to provide tax relief for the local taxpayer. This would be accomplished by changing the amount of the direct appropriation to schools from 40% to $41.1%. This action would cost the State approximately $19.95 million of the $40 million proposal. (This would not mean more revenue for schools, just more of that revenue coming from State and less from local sources of tax revenue). To accomplish this tax reduction and to have the money to fund it, the Senate reduced the amounts of the allocations to 1.5% for high schools and 3.5% for elementary schools, each year of the biennium.

The Speaker blended into the Senate bill his approach to funding schools. From the very beginning of the session, the Speaker has moved to attempt to utilize funds for school facilities from the State's Permanent Coal Trust Fund. This fund can only be accessed if 3/4 of the legislature agrees. This was not to happen.

To offset this approach, the House amended the Senate adopted bill to incorporate $12 million in "one time only " funds for facilities. To be able to finance this, the House version eliminated the local tax saving measure adopted by the Senate. The Speaker withdrew his insistence on using the Coal Trust for school facilities.

What was eventually adopted would cost to the State $34.7 million with an additional for the schedules (1% for High schools schedules and 3.5% for Elementary School schedules each year of the biennium) It also called for an additional $1.5 million for special education.

Also prevalent within the walls of the capitol was the feeling that some form of tax credit, vouchers or change in system to help students who wish to obtain an education outside of the traditional public school setting. Advocates for such approach come from many and varied segments but collectively and for often different reasons formed a large supportive block. Even a measure that would establish a Charter School outside of the public school gained some measure of support. None of these approaches, however, passed

Over thirty bills were introduced this legislative session that would produce some form of tax reduction. Despite statistics showing Montanan's paid less in taxes in 1998 as a percent of income than in 1985 (8.64% to 10.64%). Although the mix of taxing revenue has changed over that period with property taxes showing an increase, the overall burden is less than in 1985. Couple this tax reduction with the federal reduction in tax burden and Montanan's seem to be paying less as a percent of income that 1985.

Several bills did pass that would alter, change or reduce the amount of taxes that would be paid by Montanan's and that would have a direct impact on the available revenue to finance schools. Bills to lesson motor vehicle taxes, oil production, rail transportation property assessments, telecommunications tax, electrical generation facilities tax, and residential property taxes were just a few.

Chair of the Senate taxation committee introduced four interlocking bills along with three constitutional changes that would institute a 4-percent general sales tax. This measure would target the funds generated by this sales tax for education as the bills would also eliminate the State's 95 mills on property for education. This measure would also replace certain other levies on property currently applied - levy for higher education and certain local government taxes. It did not pass.

What would appear a reaction to the Constitutional Initiative 75 were several bills designed to alter the initiative process especially as it relates to changing the Constitution.

The arguments of the principal sponsor followed that since only 26% of the registered voters approved the last initiative, it doesn't represent a wide enough sample of State voters to suggest concurrence with a change in the fundamental State document - i.e. the Constitution.

Under the current system, only 10% of the qualified voters in each of 1/3 of the voter districts; or, 5% of the total registered voters were needed to place an constitutional initiative on the ballot. Thus, with a small turnout at election, it may be relatively easy to change the Constitution.

This bill would have required a 15% of the qualified voters in ½ of the counties to sign the petition. This would require a greater indication of the voter interest. It would also require rural as well as urban counties to show interest in the initiative. (CI 75 received 41% of the signatures in just one county).

Obviously, this created quite a stir especially among those who supported CI 75. This prompted supporters of this initiative to begin discussions of seeking a "call" for a new constitutional convention. However, no bills altering the initiative process were passed.

Road Ahead

Since Montana meets in legislative session only once during a biennium, all of its actions for the next two years have been completed. The course has been laid and the die is cast.

Districts all over the State are feeling the pinch of "capped" budgets, greatly reducing the size of teacher force as well as making substantial cuts in other operational categories. Numerous school people are questioning the adequacy of funding for Montana's primary and secondary students. The data seems to show schools are substantially more equitably funded than in 1988. However, the State's support is lagging. Should it continue, and it appears to be the case, I fear the State is ready for another further litigation.

NEBRASKA

1999 – Fiscal Issues for Nebraska Education

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P-12 Education

Nebraska policymakers continue to grapple with major challenges affecting public education for the pre-school through grade 12 students of the state. The legislature is faced with creating legislation (a) that would limit the negative effects of property tax relief efforts implemented in past sessions, (b) that would halt increasing disparity in spending among public school districts, and (c) that would correct unintended consequences of previous tweaking of the school funding formula.

Current structure of the funding formula

The Tax Equity and Educational Opportunities Support Act (TEEOSA) (Neb. R. S. 79-1001 to 79-1033, 1999) has the following components:

- K-12 systems, as opposed to individual school districts, will receive aid. Systems include K-12 districts and affiliated K-6 or K-8 only districts. (Class I districts, previously a separate entity with a board with levy authority, have merged with K-12 districts and no longer have levy authority; budget negotiations must be made with the K-12 system board.)
- The system is a foundation program in which needs minus resources determines equalization aid; the state determines the basic cost of per-pupil spending and cost adjustments are then made.
- Resources consist of local property tax revenues, special education reimbursements, and a portion of the state income taxes paid by system residents and additional revenues regularly received by the system (e.g., wards of the state monies, power plant tax revenue, etc.).
- An adjusted formula membership is calculated for each local system and becomes the basis for need. The actual number of students is weighted by varying grade levels. Adjustments are made to accommodate specific groups of students: those living on Indian land, those with limited English skills, and those in poverty.
- Local systems are divided into three cost groupings based on sparsity of population in the area: "very sparse," "sparse," and "standard."
- Systems qualify for the sparse grouping through a mix of three criteria: students per square mile, distance between system high schools on paved roads, and percent of county included in the school system.
- Local systems are guaranteed 85% of the state aid received in the previous year minus the amount that could be generated from increases in adjusted property valuation, except that

aid is reduced for local systems that are 10% below the revenue cap of $1.10 per $100 of assessed valuation.

- If the equalization formula causes a school system to get more revenue that it received in the previous year, extra aid would be "lopped off" and redistributed to others systems. Only those districts with 900 or fewer students and with operating expenditures lower than the average for all schools of the same caliber are eligible. The redistributed aid, called small school stabilization adjustment, goes only to systems facing revenue losses of more than 10% in state aid and property tax receipts.

Major Legislation for K-12 schooling in 1999

Legislative Bill 149, referred to as the "mainline" school funding instrument for 1999, was passed. LB 149:

- moves the state aid certification date from December 1 of the year preceding distribution to February 1, allowing the use of actual calculations of need as opposed to estimates,
- replaces $19.5 million in state aid for 1999-2000 (see below),
- adds $84 million in state in 2001-2002 when property tax levies are scheduled to drop to $1.00 per $100 of assessed valuation.

The legislation was deemed necessary because schools experienced an estimated $22 million shortfall during the 1999-2000 academic year because of errors in the calculation of state aid for 1998-1999. These errors are a result of the use of estimates in the calculation of future state aid. For 1998 – 99, the Department of Education, in re-caculations based on actual figures as opposed to estimates, determined that schools had received a windfall of approximately $19.4 million more than they were "entitled" to receive in 1998-99. That amount, without intervention from the legislature, was to have been deducted from the 1999-2000 school aid, thereby resulting in a shortfall of anticipated state revenue. The legislation returns that money to the distribution, thereby lessening the losses to most districts for 1999-2000; those schools seriously affected by the errors in last year's distributions will experience reduced state aid. The addition of $19.4 million dollars bring the total amount of state aid to schools to $594 million for the 1999-2000 school year.

Of concern to some policymakers is the reduction in budgetary flexibility for the Legislature as a result of "locking in" state aid to schools in future years once the initial aid calculations had been made. Some saw this policy as making state aid payments and "entitlement" to be met regardless of the health of the economy or status of state revenues (Nebraska Tax Research Council, March 12, 1999).

The Governor, against the legislation from the beginning because he believed the legislation to be "bad policy," vetoed the legislation, but the Legislature overrode the veto by 39 – 7 (30 votes required).

Fiscal Issues Related to Higher Education

The legislature is addressing two main issues this term with regard to higher education

- University and state college systems also face the need for additional revenues. - University of Nebraska system sought an additional $17 million dollars for each of the next two years to pay for salary increases for faculty and administrators.
  -Renovation funds are being requested.
  -Revenue for construction of a new college of education building are being requested.

- A bill was placed in committee to streamlining the higher education structure in Nebraska by putting the state colleges and the University of Nebraska under one governing board and eliminating both the State College Board of Trustees and the Postsecondary Coordinating Commission.

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NEVADA

Nevada's Accountability Initiative: Testing, Funding, and Alternative Strategies

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An off year in Nevada's biennial legislative cycle provides an opportunity to reflect on what many believe to be the most important reform initiative in the past decade. The State's new accountability program initiated mandatory standardized testing that placed all the states schools in one of three achievement categories. Passage of the Nevada Education Reform Act of 1997 (NERA) required that performance levels of *inadequate*, *adequate*, and *high achievement* be based on the percentage of student's scoring in the top and bottom quarters of the national percentile rank of the mean norm curve equivalent in reading, language arts, mathematics and science areas of the norm referenced TerraNova exam. Schools with over 40% of students scoring in the bottom quarter of the exam are designated as having *inadequate achievement* and schools with over 50% of student scoring in the top quarter of the exam are designated as having *high achievement*. The first year of NERA required a review of 438 public schools and produced a list with two schools in the high achievement category, 26 in the inadequate category, and the remainder designated as having adequate achievement.

Schools designated as having inadequate achievement in the first year must submit a plan for improvement to the Governor, the Department of Education, the Legislative Committee on Education, and the Legislative Bureau for Educational Accountability and Program Evaluation. Funding in the amount of $3 million was made available to 23 schools with such a designation in the 1998-1999 school year. Competitive grants were based on overall need, with a share going to each school. Allocations ranged from $73,430 to $207,140 and had to be expended on programs chosen from a state approved "List of Effective Remedial Programs". An additional three schools were not publicly designated and did not receive remediation funding, but were required to submit a plan for the improvement of academic achievement of its students scoring below the 26th percentile. These schools had combined grade levels (K-12) where two of the three tested levels scored at the adequate performance level and only one level scored in the inadequate range.

Remedial programs chosen by schools to be implemented in the first year of NERA focused primarily on improvement in reading, with some schools also choosing second and third programs designed to increase student achievement in mathematics, science, or across the curriculum. Robert Slavin's *Success For All* reading program was popular, being the choice of nine funded schools as well as two of the unfunded schools. Reading *Renaissance/Accelerated Reader* was selected by thirteen schools as a first or second program choice, with some using the funds to expand the books and software already funded through other sources in prior years. Six schools in a single district chose Reading Recovery, which had a strong base from prior district support of professional development in that particular program. Rounding out the programs chosen by the schools included Computer

Curriculum Corporation, Full Option Science System (FOSS), Books and Beyond, Contemporary Mathematics in Context, and Voyager. See Table 1 for specific programs and expenditures.

Table 1

District	School	Amount	Program(s)
Churchill	E.C. Best ES	$171,113	Reading Renaissance/Accelerated Reader
Clark	Booker ES	$113,113	Success For All; Reading Renaissance/Accelerated Reader; Computer Curriculum Corporation
	Bracken ES	$145,593	Success For All; Computer Curriculum Corporation
	Cambeiro ES	$94,094	Voyager; Computer Curriculum Corporation
	Fitzgerald ES	$126,688	Success For All; Full Option Science System (FOSS)
	Lynch ES	$135,907	Success For All; Accelerated Reader; Full Option Science System (FOSS)
	Madison ES	$71,064	Success For All; FOSS
	Sunrise Acres ES	$98,500	Reading Renaissance/Accelerated Reader; FOSS
	Thomas ES	$207,140	Success For All
	Woolley ES	$105,451	Success For All; Reading Renaissance/Accelerated Reader; FOSS
	Cashman MS	$114,450	Reading Renaissance/Accelerated Reader; Computer Curriculum Corporation
	Martin MS	$73,430	Reading Renaissance/Accelerated Reader
	J.D. Smith MS	$133,393	Reading Renaissance/Accelerated Reader; Computer Curriculum Corporation
	Western HS	$130,484	Reading Renaissance/Accelerated Reader; Computer Curriculum Corporation; Contemporary Mathematics in Context (CMC)
Elko	Jackpot Combined *	$0	(Not Funded)
	Owyhee Combined	$150,000	Success For All; Reading Renaissance
	W. Wendover Combined *	$0	(Not Funded)
Humboldt	McDermitt Combined *	$0	(Not Funded)
Washoe	Booth ES	$107,694	Success For All
	Corbett ES	$117,508	Reading Recovery
	Duncan ES	$166,002	Reading Recovery; Reading Renaissance
	Johnson ES	$110,597	Computer Curriculum Corporation
	Loder ES	$96,980	Reading Recovery; Reading Renaissance/Accelerated Reader
	Mathews ES	$137,000	Reading Recovery; Accelerated Reader; Books and Beyond
	Palmer ES	$108,090	Reading Recovery; Books and Beyond
	Risley ES	$104,963	Reading Recovery; Books and Beyond
	Total Allocations	$2,819,254	

* School was not designated "Inadequate" due to overall performance level (two of three grade levels tested scored in the "Adequate" range). The school was required to submit a plan for improvement for the low performing grade level pursuant to NAC regulations for SB 482.

In the second year of receiving a designation as having inadequate achievement, a school is placed on academic probation. The school is again eligible for remediation funding, but the plan to improve academic achievement of the school's pupils is prepared by the State Department of Education. If a school receives two or more consecutive designations of inadequate achievement, a panel is established to supervise the academic probation of the school and report on the factors contributing to the designation of the school. The panel may, in the third year of a designation as inadequate, recommend to the State Superintendent of

Public Instruction the appointment of an administrator to oversee the operation of the school. The panel expenses and administrator's salary are borne by the school district in which the designated school is located. (See Table 2).

Table 2

District	School	Amount	Program(s)
Churchill	School A	$171,113	Reading Renaissance/Accelerated Reader
Clark	School B	$113,113	Success For All; Reading Renaissance/Accelerated Reader; Computer Curriculum Corporation
	School C	$145,593	Success For All; Computer Curriculum Corporation
	School D	$94,094	Voyager; Computer Curriculum Corporation
	School E	$126,688	Success For All; Full Option Science System (FOSS)
	School F	$135,907	Success For All; Accelerated Reader; Full Option Science System (FOSS)
	School G	$71,064	Success For All; FOSS
	School H	$98,500	Reading Renaissance/Accelerated Reader; FOSS
	School I	$207,140	Success For All
	School J	$105,451	Success For All; Reading Renaissance/Accelerated Reader; FOSS
	School K	$114,450	Reading Renaissance/Accelerated Reader; Computer Curriculum Corporation
	School L	$73,430	Reading Renaissance/Accelerated Reader
	School M	$133,393	Reading Renaissance/Accelerated Reader; Computer Curriculum Corporation
	School N	$130,484	Reading Renaissance/Accelerated Reader; Computer Curriculum Corporation; Contemporary Mathematics in Context (CMC)
Elko	School O*	$0	(Not Funded)
	School P	$150,000	Success For All; Reading Renaissance
	School Q*	$0	(Not Funded)
Humboldt	School R*	$0	(Not Funded)
Washoe	School S	$107,694	Success For All
	School T	$117,508	Reading Recovery
	School U	$166,002	Reading Recovery; Reading Renaissance
	School V	$110,597	Computer Curriculum Corporation
	School W	$96,980	Reading Recovery; Reading Renaissance/Accelerated Reader
	School X	$137,000	Reading Recovery; Accelerated Reader; Books and Beyond
	School Y	$108,090	Reading Recovery; Books and Beyond
	School Z	$104,963	Reading Recovery; Books and Beyond
	Total Allocations	$2,819,254	

* School was not designated "Inadequate" due to overall performance level (two of three grade levels tested scored in the "Adequate" range). The school was required to submit a plan for improvement for the low performing grade level pursuant to NAC regulations for SB 482.

Twenty of the twenty-six schools designated as having inadequate achievement were in urban areas - thirteen in Las Vegas and seven in Reno. Of the six remaining schools, two were in small town settings and four in extremely remote, sparsely populated areas of Nevada. Demographic statistics on the schools designated at the top and bottom performance levels were collected. They revealed low socio-economic status in the form of 50% or more free and reduced meal eligibility, as determined by Title I criteria, for all of the 1998-1999 inadequate designated schools. Both of the high achievement schools had free and reduced percentages of less than 3%. Other factors included a higher than district average for English Language Learners (ELL) and higher transiency rates at the schools designated as inadequate. Although attendance was not a strong indicator of low performance, the two high achieving schools had attendance rates of over 96%.

Although the selected programs did not have time to have an impact on student achievement before the next assessment, the schools designated as inadequate in 1998-1999 school showed a marked improvement. All but six of the twenty-six schools on the list improved to the adequate category for the upcoming April 1999 designation of schools. Many of the schools attributed the improvement to concerted staff efforts to improve both test-taking skills and basic reading and math skills.

Perhaps the greatest effect of Nevada's School Reform legislation has been the attention focused on schools considered at risk. Low performance levels that may have been formerly deemed as the only possible educational outcome have suddenly been challenged by public and state legislative pressure to improve. While there is clear consensus that students of "at risk" schools are impacted by poverty and/or other language barriers that create greater challenges in educational attainments than their counter parts from wealthier neighborhoods, programs have begun to alleviate those barriers. In the past low expectations have been met. Nevada's new accountability system legislatively increases those expectations. After a year's experience several adjustments have been proposed. A bill draft will be considered in the 1999 legislature to change the designation of low performing schools to schools needing improvement, to lower the limit of a high achievement category to 40% membership in the top quarter of achievement tests, and to rename the current high achievement category to exemplary. Additionally, the 3 million dollars appropriated for remediation programs in inadequate achieving schools during the past biennium has been increased in the governor's new budget proposal to 12 million dollars. If enacted by the legislature for 1999-2000, the increased funds will help Nevada's accountability system rise to the challenge of providing alternative instructional strategies for its most at risk school populations.

NEW BRUNSWICK

Educational Finance in New Brunswick without School Boards

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For thirty years New Brunswick has operated with one of the most centralized educational systems in North America. In 1967, as part of the Equal Opportunity Program, school boards were deprived of their power to levy property taxes and education finance was centralized at the provincial level. The number of school districts was reduced from 422 to 33. At that time the only other North American jurisdictions with comparable levels of centralization of finance and governance in education were Hawaii and Yukon. Although the Equal Opportunity Program was introduced amid considerable controversy, even its detractors now admit that it achieved its objective, the equalization of per pupil expenditure throughout the province. In the decades after equal opportunity, the number of school boards actually increased as French and English bilingual boards created by the 1967 consolidation split along linguistic lines. In 1981 this linguistic separation became a requirement that was guaranteed legislatively and, in 1993, as a result of New Brunswick's favourable vote on the Charlottetown accord, that guarantee was entrenched in the Canadian constitution. The substantial reduction in local school board powers brought about by the Equal Opportunity Program in 1967 was carried to its conclusion in 1996 by the complete elimination of school boards. All powers are now centralized at the provincial level. Although elected school boards were eliminated in 1996, the school districts in existence at that time were retained.

The guarantee of separate but equal school systems for the two linguistic groups creates diseconomies of scale in education that add to those caused by geography. Pupil transportation costs, for example, depend on urbanization and pupil population density, but in New Brunswick the population densities of anglophone and francophone pupils must be considered separately because they must be transported to different schools. Both geographical and linguistic isolation guarantee the continuation of a few small schools with relatively high unit costs and also result in relatively high pupil transportation costs. Nevertheless, the populations of the two linguistic groups are geographically concentrated enough to make this factor less important then the rural nature of the province. But both factors are given and no amount of school reform can change them.

Financing

Since 1967 the system of educational finance in New Brunswick has been one of full provincial assumption of virtually all educational costs with only the details of budgeting and fiscal control changing periodically. The essential characteristic of full provincial assumption is the elimination of earmarked local taxes, typically taxes on real property, levied by school boards to support education. Since 1967, there have been no local taxes for education and no taxes earmarked for education at any level. The taxing power of school boards was eliminated in 1967 and, as we have seen, the school boards themselves were eliminated in

1996. During the past thirty or more years, school district expenditure has been governed by a budget approval process with various formula elements appearing and disappearing from time to time. Some very important but somewhat indirect elements in the budgeting process are the provincially negotiated collective agreements covering most positions in the school system. The following paragraphs consider school finance in the three conventional categories: recurrent expenditure, pupil transportation, and capital expenditure.

Table One
Allocation of full-time equivalent professional staff positions in New Brunswick schools for 1999-2000

level or function	full-time equivalent teachers per approved class	pupils per full-time equivalent teacher
kindergarten	1.05	
grades 1 to 5	1.10	
grades 6 to 8	1.20	
grades 9 to 12 for first 100 pupils		14.0
grades 9 to 12 for next 300 pupils		22.5
grades 9 to 12 for next 400 pupils		23.0
grades 9 to 12 for pupils in excess of 800		23.5
administration		325
guidance		537
library		2400

For the purpose of the main formula elements presently used to fund recurrent expenditure, the system is divided into two levels, the first consisting of the elementary and middle levels and the second of the high school level. The funding basis for the formula elements at the elementary and middle levels is the approved classroom and at the high school level, the pupil. Table One gives the numerical details for direct expenditures on school staff. The reason for the split is the generally smaller size of elementary and middle schools and the difficulty of identifying classes as such in high schools. Notwithstanding the formula, all high schools are entitled to at least five teachers. In Table One, teachers, at all levels, are defined to include classroom teachers as well as specialists without home rooms. At the elementary and middle school levels, classes are approved for each individual school based on the number of classes and the enrolment in the previous year. Elementary and secondary school enrolment in New Brunswick is in a state of stable decline of one to two percent per year. Thus current enrolments accurately predict enrolments in the near future.

An important constraint on budgeting recurrent expenditure for elementary and secondary education is the class size article in the collective agreement covering teachers (Agreement, article 20). This prescribes maximum class sizes at all levels. Table Two gives these maximums for the school year 1999-2000. Article 20.07 contains wording that incorporates into the collective agreement, where they can be enforced, all future announcements by the Minister of Education of reduced class sizes. Modest reductions of class size at the lower elementary level have been announced for the next several years. In many schools actual class sizes are below the maximum levels because of the size of the school or for programmatic reasons. School districts are not bound to hire the exact number of teachers prescribed by the formula in Table One, but are bound by the upper limits on class size.

There are many miscellaneous expenditure categories that are financed with reference to pupils or to teachers as defined in Table One. Instructional supplies, library materials, library assistants, professional development, and co-curricular field trips each receive a per pupil grant. Special needs costs are funded by a per pupil grant that is restricted to spending within that category. Substitute teachers and office supplies are funded on a per teacher basis.

Table Two
New Brunswick Elementary and Secondary School Maximum
Class Sizes for 1999-2000

grade levels	classes with a single grade	multiply-graded classes
K-1	25	20
2	28	24
3-6	32	27
7-12	33	28

For many other expenditure categories, the approved amount is based on the amount budgeted or spent in the previous year. This includes areas such as repairs, staff travel, telephone service, utilities, building cleaning, and snow removal.

The only recurrent expenditure that tends not to be proportional to pupil population is that of pupil transportation. In New Brunswick pupil transportation is further complicated by the fact that most areas of the province are served by two school systems, distinguished by language and operating independently. In general, expenditures related to pupil transportation are simple projections from the previous year. Much of the budgeting in this area is done jointly by the Department of Education and the Department of Transportation which owns and maintains the busses. The planning of routes is done by school districts in conjunction with the Department of Education. Routes are a major factor in determining the level of expenditure required and tend to be stable from year to year. Declining enrolments provide a few occasions for route changes and these take the form of route consolidations. The budget for contracted conveyance is based on the contracts themselves and these must be approved by the Department of Education.

Capital expenditures have been entirely under provincial control since 1967 when school boards lost the right to own property. Prior to the abolition of school boards, each school board would put forth its case for new or renovated schools to the province and frequently to the public. But for more than 30 years, capital expenditure for schools has depended on a provincial priority list based on provincially assessed need. An important variable in the capital expenditure process has been the speed with which the province has moved down the priority list and this has depended on the general state of provincial finances and on overall provincial priorities. The long-run planning of capital expenditure has occasionally been interrupted by short-run problems. A recent one has been the greatly heightened concern over indoor air quality in schools.

Conclusions

Throughout Canada and the United States in recent decades education finance has become more centralized. New Brunswick beat the trend in 1967 by legislating the full provincial assumption of all educational costs. It went further in 1996 by eliminating school boards. For more than 30 years education has been financed by a provincial budget approval process. Recurrent expenditures other than pupil transportation are formula based and depend on a number of factors but tend to end up being proportional to pupil numbers.

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NEW MEXICO

New Mexico Trends in Education Finance
Resource Allocation and Outcomes Assessment: Conflict or Compromise?

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Introduction

At the time this paper was originally envisioned and entitled the intention was to examine what was surely to emerge as a tumultuous political interaction surrounding the resolution of educational issues in this year's legislative budget process. As is not uncommon, present Republican New Mexico Governor, Gary Johnson, had presented himself as the education governor and espoused a campaign platform favoring educational reform (school vouchers and charter schools), tax cuts, longer time served for prisoners, and cost effectiveness in the public sector. Johnson viewed his election to a second term as a mandate for the implementation of school vouchers, expansion of the state's very limited charter school program, and expansion of the state's testing program for students. These aspirations for educational reform, however, put the Governor on a collision course with the Democratic controlled legislature and the anticipated conflict emerged as the 44th Legislative Session designed its General Fund spending plan for FY2000.

While the conflict over education spending has been realized, the compromise suggested as the focus of this roundtable has proven elusive and may in fact remain "as scarce as hen's teeth" for the immediate future. With Johnson's recent veto of the 1999 General Appropriations Act and related public capital outlay measures, public school, as well as all other government agency, operations are threatened in the short run. Presently, it is unclear if current conflicts will become crystallized or if successful compromise will emerge during a Special Legislative Session to begin May 4, 1999. Conflict has focused on school vouchers, charter schools and charter school districts, alternative schools for at-risk students and collective bargaining for public employees and related personnel issues

School Vouchers

Governor Johnson's intentions regarding the implementation of a school voucher program were identified early on in the legislative process. Sen. W. Davis, R-Albuquerque (SB289) and Rep W.C. Williams, R-Glencoe (HB303) sponsored measures that would have implemented a four-year phase-in of school vouchers. In the first year, vouchers worth about $3,200 would have been available to up to 100,000 of the state's most impoverished children. The estimated program cost of $300 million in the first year would have come out of the public school budget. By the end of the four-year phase-in period, vouchers would have become available to the families of all students in the state to be used at any public or private school of their own choosing.

The program as originally conceived ran afoul of Democratic opposition on the ground's that the vouchers would be unconstitutional. Ultimately the measure was tabled in the Senate Judiciary Committee.

Charter Schools

New Mexico had enabled charter schools in 1993 although the number of charter schools at any one time was limited to only five schools. Only "conversion schools", pre-existing public schools converted to charter status, were allowed. School charters were limited to a maximum of five years with approval of the State Board of Education. The 1998 Legislature (SM 26 and HM18) established a 35-member task force comprised of educators, legislators, representatives of the five charter schools in operation, and lay people to examine the feasibility of expanding the concept of charter schools.

During the 1999 Legislative session, Sen. M. Boitano (R-Albuquerque) introduced the 1999 Charter Schools Act (SB 192a) that enables 100 more charter schools in New Mexico over the next five years. Fifteen new "start-up" charter schools and five schools converted from pre-existing public schools may be established each year. Charter schools can be formed by as few as two parents or by other groups including businesses with approval of local school boards rather than the State Board of Education. The charter schools may focus their programs on particular discipline or curricular emphases or offer programs specialized to meet the needs of students with particular educational needs.

The Charter School District Act (HB 458a) sponsored by Rep. J. Vanderstar Russell (R-Rio Rancho) enables three charter school pilot districts that will operate on a trial basis until June 30, 2005. The charter school districts must be converted from existing public school districts, approved by a majority of district voters, a super-majority of 65 percent of district employees and the State Board of Education. Each charter school district may be approved for a five-year period. The approval process of the school district charter operates in a manner kin to a "super-waiver" for a variety of State Board of Education regulations. While charter school districts would have to meet benchmarks and standards set by the state, curriculum and programs will be controlled by local officials. Waivers previously were only available to individual schools and processing often became cumbersome and time to approval became extended depending on other demands of the State Board of Education agendas.

Governor Johnson accepted both the charter school and charter school district measures. The Governor commented "I" am pleased to sign these bills, which will allow some students in New Mexico to go to public schools that are freed from educational bureaucracy and free to be more innovative and focus on results" (Coleman, M. 4/9/99).

However, the Governor vetoed the Student Alternative Act (SB 173a) sponsored by Sen. R. Romero, D-Albuquerque, and a former APS administrator. This measure was designed to help about 700 students at risk of dropping out of public schools and would have allowed businesses and others to use public money to set up alternative schools of between 100 to 200 students. The measure was viewed by some legislators as a compromise to voucher proposals and seemed for a time to enjoy bipartisan support. Former Democratic

Governors Anaya and Apodaca, as well as former Republican Governors Cargo and Carruthers testified in favor of the plan along with the Johnson's legislative liaison. The Governor justified his veto of the measure because the program would have involved too few students to encourage educational entrepreneurs and because the measure was to have been funded from the state general fund rather than from the public school budget.

Collective Bargaining and Related Personnel Issues

In a manner similar to his approach to the issue of school vouchers, Governor Johnson was clear about his conservative posture on collective bargaining for public employees and related personnel issues. The Governor had been vocal in his opposition to the extension of the collective bargaining legislation due to expire on 7/1/99. In addition, Johnson favored a repeal of the state's prevailing wage law that required contractors on public works projects, including school construction, to pay union-scale wages to their workers. Johnson also vetoed a bill to raise the state's minimum wage to $5.15.

Throughout the Legislative Session, Democrats used the extension of the collective bargaining provisions as a means to obstruct the Governor's educational reforms. By amendment, the extension of collective bargaining for public employees was wed to educational reform measures sought by Republicans. Sen. C. Cisneros, D-Questas, amended the charter school bill supported by the Governor to include continuation of collective bargaining for public employees in an attempt to create political leverage on Johnson and other Republicans.

Collective bargaining was also amended in the same session to a bill (SB 341a) that extends the repeal clause for 19 state regulatory boards and commissions. These boards include the state's Public Employee Labor Relations Board, Human Rights Commission, the Racing Commission, the Athletic Commission, and boards regulating counselors massage therapists, acupuncturists, architects, engineers, and accountants. The Legislative Finance Committee regularly reviews these boards and recently found that all 19 boards worked in the interests of the state. Under the state's sunset provisions, these boards and commissions are scheduled to sunset July 1, 1999 and were proposed to be extended for another seven year's with the passage of SB 341a.

The Democratic moves prompted Senate Republicans to stage a walkout during the session with Senate Minority Leader L.S. Vernon , R-Albuquerque, stating "What we saw last night was a complete sacrifice of New Mexico's children and the issue of education to organized labor. They'll sacrifice any and all legislation to their goal of serving these union bosses and getting collective bargaining re-established." (Roberts, C. 3/13/99) While the collective bargaining extension amended to the Charter Schools Act was removed in time to allow passage of the measure, the amendment to SB 341a was retained resulting in a veto by the Governor.

Consequences of Life with Governor No

During his first term in office, Governor Johnson came to be known as Governor No

– a moniker that he appeared to assume with some pride. Governor No vetoed nearly 400 bills his first term, nearly 1/3 of all measures forwarded by the Legislature for his approval, an action that was the cause for dissatisfaction among Democrats as well as some Republicans. However, having recently stated publicly, "Yea, though I have walked through the valley of the legislative session, I fear not because my veto pen is with me. And it is turbo-charged." (Oswald, M. 3/24/99), it appears Governor Johnson is willing to continue to be known as Governor No. Over 150 measures have fallen to his veto authority.

The push and pull of partisan politics aside, the recent Legislative Session resulted in preparation of three budget proposals without avoiding the Governor's "turbo-charged" veto pen. As a result a special session, scheduled for May 4, 1999, has been called with varying prognoses for its outcome. The Governor wants lawmakers to have a wide-ranging debate on his education initiatives, particularly the controversial school voucher program that he feels was largely ignored during the regular 60-day session.

The Governor is expected to introduce a scaled down version of a school voucher program that will include fewer students and probably will focus on an urban area like Albuquerque, Santa Fe, or Las Cruces. The Governor hopes to encourage a school voucher program that would include several thousand students; a number he considers adequate to encourage educational entrepreneurs to step forward and open private schools where none currently exist.

The Governor and his staff hope to resolve more general budgetary matters with Democratic legislative leaders prior to the special session. Johnson favors a special floor session in May with experts on school vouchers from around the country debating school vouchers including their constitutionality. However, Democrats continue to resist school vouchers suggesting that, if they're unconstitutional for 100,000 students, vouchers are unconstitutional for even one student.

As for the open dialogue Johnson favors during the May session, House Speaker R. Sanchez (D-Albuquerque) has stated "That is not how I am planning to spend the Month of May. It's just foolish. It doesn't make any sense to keep 112 legislators in session for a month so he (Johnson) can bring in out-of-state experts to tell us how to run our schools in New Mexico. " (Fecteau, L. 4/14/99) Sanchez estimates that by concentrating on budget issues only, the May special session could be concluded in a matter of days.

Senate Majority Leader Tim Jennings (D-Roswell) suggests "The longer you wade into May, the more you screw up public schools. They have to order textbooks and hire teachers, and without a budget in place, they can't do that." (Fecteau, L. 4/14/99) Democrats favor an interim task force to examine education issues, including school vouchers. A proposal Johnson considers "a black hole". Even Republican leaders suggest a lengthy special session would waste taxpayer money if the parties remain so far removed from consensus. Republicans from rural areas find little support for vouchers among their constituencies and there is not unanimity in terms of a voucher program among the Senate Republican caucus.

Speculation abounds in this uncertain environment. Government shutdown, curtailing public school summer programs, loss of qualified teachers, etc. are all hypothesized to be possible outcomes of the present situation. It is more likely that some form of compromise will be reached before either Republicans or Democrats decide to "...shut down the world here." However, this is not to say getting to a compromise will be an amenable process – "The question is how long do you want to play hard ball?" (Rep. T. Hobbs, R-Albuquerque). (Oswald, M. 3/23/99). Hopefully, the answer for New Mexico will be "not too much longer."

Postscript

A special session was held in May, 1999 to further consider school voucher proposals. Although ten legislative proposals were submitted for consideration during the special session, seven of these failed to survive the legislative committee process. Two proposals, one in the House and one in the Senate, achieved sufficient support to pass, but both were vetoed by the Governor. The third proposal, supportive of the Governor's bold plan for school vouchers, was defeated in the House (20-50). This indicated that bi-partisan support for school vouchers had not been achieved and that some Republicans also remained in opposition.

Most recently, Governor Johnson has been a speaker for The Heritage Foundation (10/4/99) where he presented recent experience in the school voucher debate and his continued commitment to competition as a means to effective public school reform.

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NEW YORK

The New York Charter Schools Act of 1998: Possibilities and Perils

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Overview

During the 1980s, a number of reports emerged that concluded that American schools suffered from numerous ills. In response to these charges, state and local policymakers proposed a variety of reforms, each intended to improve their public school systems. The more common proposals were higher academic standards, extended school days, and improved teacher preparation. While many policymakers embraced these reforms, others were not sanguine that school improvement would result under the current system. Instead, some policymakers proposed market-based approaches to the delivery of educational services. School choice, the term commonly used to describe such proposals, encompassed a range of initiatives designed to incorporate certain principles of a free enterprise system into schooling. One such approach was charter schools.

Simply put, a charter school is a publicly funded school established pursuant to an agreement between a private entity and the state for the purpose of providing an alternative educational setting. Under this arrangement, the state agrees to waive some regulations, affording the charter school greater autonomy, in exchange for increased levels of student performance. The assumption is that the combination of state and local regulations hinder public school's efforts to improve student performance. Charter schools, granted relief from these constraints, would be able to restructure the teaching process and thereby improve student achievement (Odden and Busch, 1998).

Hailed as a vehicle to raise academic standards, empower educators, and increase accountability, Minnesota became the first state to pass charter school legislation in 1991. Since then, 34 other states and District of Columbia have enacted some form of charter school legislation. Currently, 1,200 charter schools have been established across the U.S. (Malico, 1999).

The purpose of this brief is to educate readers about New York's recent foray into the charter school movement. The chapter begins by answering fundamental questions about <u>The New York Charter Schools Act of 1998</u>. This discussion provides an overview of the basic design of New York's charter schools. The article then focuses on the successes and failures of charter schools by summarizing what is know about the efficacy of this reform. After reviewing the limited literature on the topic, I discuss several concerns about New York's charter law.

The New York Charter Schools Act of 1998

While there are common elements among charter schools nationwide, New York's law has several unique features and it is the purpose of this section highlight these provisions. Specifically, this section sets out to answer frequently asked questions regarding New York's charter schools legislation. The discussion draws directly from The New York Charter Schools Act of 1998 and reports published by the New York State Education Department, including A Guide to the New York Charter Schools Act of 1998 and Charter Schools: The New York Charter Schools Act of 1998.[1]

What are charter schools?

Charter schools are public schools that operate under a contractual agreement, or charter, between the school and a charter entity. Charter entities include The Board of Regents, The Board of Trustees of the State University of New York (SUNY), and the boards of education of local school districts.[2] Charter schools are subject to the same health and safety, civil rights, and student assessment requirements as other public schools, but are exempt from all other State and local laws, rules, regulations, or policies governing public or private schools.

What are the objectives of charter schools?

The purpose of New York's charter school system is to provide opportunities for teachers, parents, and community members to establish and maintain schools that accomplish the following objectives:

- Improve student learning;
- Increase learning opportunities, particularly for students at risk of failure;
- Encourage new innovative teaching methods;
- Create new professional opportunities within the public school system;
- Expand choice of educational opportunities within the public school system; and
- Effect a change from rule-based to performance-based educational systems.

How many charter schools will be established?

Charter entities can issue up to 100 charters for new schools. The SUNY Board of Trustees can grant up to 50 of these charters, and an additional 50 charters may be approved by the Board of Regents (including any recommended by local school boards and the Chancellor of the NYC Public Schools). In addition, an unlimited number of existing public schools may convert to a charter school by obtaining approval of the majority of students' parents/guardians, the local school board (or Chancellor in New York City) and the Board of Regents.

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[1]These and other relevant documents are available at the following website: http://www.nysed.gov.
[2]Or, in New York City, the Chancellor of the New York City Board of Education.

Who can establish a charter school?

Any combination of teachers, parents, school administrators, and community residents can establish a charter school and can do so in conjunction with a college, university, museum, educational institution, not-for-profit corporation, or for profit business. In all cases, however, the a charter school must be nonsectarian in its programs, admissions policies, employment practices and other operations and may not provide or allow the use of its funds to support religious instruction. Accordingly, churches or religious denominations or groups may not control or direct a charter school. The law also prohibits an existing private school from converting to a charter school.

Although charter schools are exempt from most rules and regulations, the Law does impose several program requirements. First, charter schools must design their education programs to meet or exceed the student performance standards adopted by the Board of Regents. Secondly, charter schools are also subject to the same student assessment requirements as other public schools. Thirdly, charter schools must provide at least as much instruction time during the school year as required of other public schools (180 days, 5 –5 ½ hour day).

Charter schools must also meet certain organizational requirements. For example, charter schools can offer instruction in one or more grades between kindergarten and grade 12. However, they must serve at least 50 students. Charter schools must also employ at least three teachers, though there may be exceptions if applicants provide justification for such exceptions. In addition, at least 70 percent of the teaching staff must hold certificates. Charter schools can employ uncertified teachers (up to 30 percent of the teaching staff, or five teachers, whichever is less) as long as they have the following expertise or experience:

- At least three years of elementary, middle, or secondary classroom teaching experience;
- Two years of experience with the Teach for America Program;
- A tenured or tenure-track college faculty position; or
- Exceptional business, professional, artistic, athletic, or military experience.

Certified teachers who teach outside their certification area do not count when determining the permissible number of uncertified teachers.

The Charter Schools Law also requires that a charter school be located at a single site. The following are permissible locations:

- An existing public school,
- A private site,
- A public building,[3] or

[3] The State Office of General Services and each local district is required to create, and make available upon request to applicants a list of available public and private buildings in that district (or space within those buildings) that may be suitable for charter schools.

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- Any other suitable location.

If a charter applicant has these minimum requirements, charter entities will then grant a charter following a determination of the school's ability to operate in an educationally and fiscally sound manner, and evidence that the school will improve student achievement. Charter entities may give preference to applicants that seek to expand learning opportunities for at-risk students. If a charter entity denies an application for a charter school, the decision is final and cannot be appealed to any authority, including a court of law.

Upon approval, the charter entity issues a charter for period not to exceed five years. Charter entities may renew a charter for five additional years if the school has made progress toward meeting its educational goals and is in sound financial condition.

How do charter schools admit students?

All children are eligible for admission to a charter school. In addition, a charter school may not discriminate against students because of ethnicity, race, religion, intellectual ability, disability, or gender. However, a charter school may be a single sex school or a school designed to serve at-risk students, and in such circumstances may limit admissions to students of a single gender or students who are at risk of failure. In addition, a charter school may deny admission to a student who is currently under suspension or expulsion by another public school until the period of suspension or expulsion has expired. A charter school may also grant admissions preference to returning students and their siblings, and children residing in the local school district. In those cases where applicants exceed available slots in a charter school, admissions must be conducted through a lottery process.

Do employees of charter schools work for the local school district?

Charter school employees do not work for the school district where the charter school is located. If, however, a public school converts to a charter school, the employees who were eligible for representation will still be subject to the collective bargaining agreement for the local district. Charter schools that are not conversion schools, and which have more than 250 students in the first year of school, will be deemed to be represented by the same employee organization that represents teachers in the local school district. Charter schools with fewer than 250 students during the first year of operation are exempt from mandatory union representation. Charter school employees are eligible to join the Teachers Retirement System or other relevant retirement systems open to other public employees.

How are charter schools funded?

Charter schools cannot charge tuition and fees may be charged only to the extent required in other public schools. Instead, charter schools will be paid 100 percent of the approved operating expense (AOE) per pupil calculated under State Education Law for each student enrolled.[4] AOE includes instructional and administrative salaries and fringe benefits, maintenance, and other operating costs. Operating expenses not included in AOE that may be

[4] See Brent (1999) for a detailed treatment of the calculation of AOE under State Education Law.

available to charter schools include textbooks, library materials, computer software, and health and welfare services. Regarding transportation, charter school students will receive transportation from their school district of residence on the same basis as non-public school students (i.e., subject to minimum mileage limits). In addition, local district must remit to charter schools federal and state aids attributable to disabled students. Charter schools may also access federal and state funds for free and reduced price lunch programs (FRPL). Local districts may, but are not required to, allow charter school students to participate in athletic and extracurricular activities.

A charter school may own, lease, or rent space. Currently there is no building aid for charter schools. However, charter schools can use operating funds to lease facilities. If a charter school contracts with a local school district or public university for the use of a school building and grounds these facilities must be provided at cost.

In addition to public dollars, charter schools can solicit and except private funding. Charter school may also issue corporate bonds. However, the charter school may not use operating funds to satisfy bond obligations. Charter schools are exempt from taxation, fees and assessments on earnings and property to the same extent as other public schools.

How are charter schools held "accountable?"

The Board of Regents and the charter entity are required to oversee, visit, and inspect each school in order to ensure compliance with all applicable laws and charter provisions. In addition, charter schools will be required to submit an annual report to the charter entity. The report will include of the following information:

- A charter school report card containing academic and fiscal performance measures,
- A discussion of progress towards achieving the charter goals,
- A certified financial statement of the school's revenues and expenditures, and
- A copy of the most recent independent fiscal audit.

The charter entity or the Board of Regents may terminate a charter under any of the following scenarios:

- A charter school's outcome on student assessment measures adopted by the Board of Regents falls below the level that would permit the Commissioner of Education to revoke the registration of another public school, and student achievement has not improved over the preceding three years;
- A substantial violation of law or the charter; or
- The Public Employment Relations Board finds the charter school engaged in a practice of egregious and intentional interference with employees' rights under the Civil Service law.

Possibilities and Perils

With the approval of New York's first charter schools, we have taken a giant step toward improving education for all children in New York.
-Thomas F. Egan, Chairman University Board of Trustees

The New York Charter Schools Act of 1998 permits charter entities to issue up to 100 charters for new schools and an unlimited number for public schools that convert to charter schools. As of October 1999, charter entities have issued eight charters, four to "new schools" and four to "conversion schools." State officials also report that they have received far more applications than the number of slots that remain and that, in general, the pool is strong (Charter Schools Institute, 1999).[5] Thus, if the pattern of approval continues and the charter entities issue the maximum number of new charters permitted by law, New Yorkers can anticipate well over 100 charter schools to open next fall. In a single year, New York would become one of the nations largest providers of education by charter (U.S. Department of Education, 1999).

Charter schools, like other choice proposals, shed two political liabilities of school reform efforts: they do not require spending more money, and they promise to improve student learning. Indeed, the foundation upon which New York's Charter Schools Law rests – that the State will "improve student learning" by holding charter schools accountable for results – is compelling. Despite this rhetoric, however, very little evidence is available regarding the efficacy of charter schools simply because these schools are such a recent phenomenon (see Geske, 1997). In fact, there is an emerging literature that suggests that performance based accountability poses a number of serious problems.

First, many scholars are skeptical that states will use meaningful assessment instruments to hold schools accountable for student performance. New York, for example, has a well-developed system of standardized exams and will likely on these instruments to gauge charter school performance. Many scholars claim, however, that standardized tests exclude important attributes that teachers can only measure by using more costly assessment practices such as portfolio reviews. Still others argue that the domains of tests are only a subset of the desired outcomes of schooling (see Koretz, 1996).

To understand further the limits of performance based accountability it is also imperative to consider the nature of the assessment data. First, the test score data will likely be cross-sectional and have no control for student mobility. Secondly, it is unlikely that assessment databases will include information about background factors that exert powerful influences on test scores, such as family background and peer influences (Koretz, 1996). Studies consistently report that family background exerts a greater influence on student

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[5]Policymakers also note the diversity of the charter proposals. Charter entities have received applications from teachers, museums, universities, community colleges, business and community groups, and private for-profit companies, such as The Edison Project and the National Heritage Academies. The populations that these schools propose to serve also vary greatly, ranging from gifted elementary students to high school dropouts (See Charter School Institute, 1999).

achievement than school practices. However, it is unlikely that charter schools can compel parents to provide this information.

Student performance measures are also susceptible to corruption. For example, instruction can be guided toward test taking skills rather than content (Koretz, 1996). Instruction can also be directed toward tested (e.g., math) rather untested areas (e.g., science). Schools can also improve average scores by altering the pool of students tested. Indeed, such high stakes accountability could prompt schools to encourage low-achieving students to return to the public schools.

Performance-based accountability is confounded further by the possibility that charter schools will enroll the "best" students, even if the Law prohibits selectivity in admissions and targets at-risk students. Lee, Croninger, and Smith (1996), for example, report that the type of disadvantaged family most likely to exercise choice are those with relatively more education and higher family incomes. These findings are consistent with conclusions drawn from other studies about families who participate in choice programs (see Rassell and Rothstein, 1993). Most damning is that these findings suggest that choice tends to differentiate students in ways that increase the social stratification of schools rather reducing inequality (Elmore and Fuller, 1996).

In summary, the absence of meaningful performance measures will make many of the claims about charter schools (both successes and failures) untenable. In fact, Rothstein (1999) regrettably reports that not a single charter has been revoked for academic failure. While many charters may indeed improve student performance, it is unlikely that they all do. Instead, states have revoked charters for violation of church-state rules and for financial mismanagement (Rothstein, 1999). Other charter schools have closed due to limited resources. In total, about three percent of all charter schools have closed since the first charter school opened in 1992.

Charter school advocates are optimistic regarding this reform. Charter schools will remedy the deleterious effects of bureaucracy and make schools more responsive and effective, without increasing the cost to taxpayers. However, the limited evidence suggests a more cautious view of charter schools as an instrument for reform. Charters schools may produce instructional innovations and increase parental choice and engagement. And, they may increase disparities between those who choose and those who do not. In any case, the burden of proof now clearly rests with those who claim that charter schools will improve New York's educational system. No doubt, this will prove to be a daunting task.

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OHIO

The Courts and School Finance in Ohio, 1999

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Two important school finance court decisions came down early in 1999, as the Ohio General Assembly was deliberating on the first biennial budget proposed by newly elected Governor Bob Taft. One decision was the next round in the DeRolph school finance equity case, and the second decision was the Ohio Supreme Court's ruling on the Cleveland voucher experiment. Although the courts ruled against the State in both cases, neither decision significantly altered the policy decisions in the budget legislation.

The DeRolph Case - Second Round

In DeRolph v. State (1997) the Ohio Supreme Court held that the State does not maintain a "thorough and efficient system of common schools," as required by the constitution. In 1998, plaintiffs returned to the trial court, contending that the State had not complied with the Supreme Court's order in DeRolph. Perry County Common Pleas Judge Linton D. Lewis ruled for the plaintiffs again on February 26, 1999. The State is currently appealing directly back to the Supreme Court.

Judge Lewis addressed each of the points of the Supreme Court's mandate and found the State wanting on each one (DeRolph, 1999). "The Court finds that while many minor changes have been made, with little exception, those changes are largely changes of form and not substance" (p. 222). His findings of fact and conclusions of law are summarized here.

State Subsidies for School Operation. The Common Pleas Court found that the State had not substantially increased subsidies for schools, which would have been evidence of the "complete systematic overhaul" required by the Supreme Court. While the State did increase funds for fiscal year 1999 over 1998, the Court found that the increases were offset by new unfunded mandates. These include required school budget set-asides, additional credits required for high school graduation, mandated remedial programs, and strings on previously block-granted funds for disadvantaged pupils.

One of the Supreme Court's criticisms of the old formula was that it was a "budget residual;" that is, the foundation amount per pupil was set by first determining how much money was available in the state budget for education, and then backing out a foundation level that would spend the amount available. Judge Lewis found that there was "evidence of continued residual budgeting" (p. 81), both in the methodology employed by State consultant, Dr. John Augenblick, and by the adjustments to Augenblick's recommendations made by the legislature in order to bring down the overall cost. Augenblick recommended a foundation level of $4269 per pupil, but the legislature cut that to $4063, to be achieved by FY 02, and appropriated $3851 for FY 99. Then they placed a cap of on the percentage increase of state aid that any school district could receive in one year. Judge Lewis noted that the trial court in the Wyoming school finance case ruled that phasing in a new formula was unconstitutional there. "The heart of the issue in this case is what is an adequate education, and the Department of Education did not determine that," he wrote (p. 104).

Funding for School Facilities. Judge Lewis concluded that, "the facilities problem is so immense that the State's effort has been woefully inadequate, even after a combined State and local effort of $4 billion in capital spending, the facilities problem has only worsened from a $10 billion problem in 1990 to a $16.5 billion problem in 1997" (p. 222). Also, he found that the recent legislative enactments show "a legislative intent to give districts an incentive to pass permanent improvement [property tax] levies . . . Such incentive to increase reliance upon local property taxes is contrary to the Supreme Court's decision" (p. 52).

Reliance on Local Property Tax. Judge Lewis found that the system's reliance on local property tax has not been reduced, but rather increased, and that wealth-based disparities remain. Other Ohio court cases, especially involving property tax on utilities, have resulted in the erosion of the local property tax base, and caused schools to have to ask voters to increase millage for schools even more. The equalization formula now requires a greater local contribution, which comes from either property or local income taxes. The state share of funds in the system has declined proportionately to the local share, and poorer districts have increased their tax effort to a greater extent than richer districts.

Borrowing. The Supreme Court ruled in 1997 that the State's requirement that districts borrow money to avoid deficits at the end of the fiscal year (see Edlefson, 1994) is unconstitutional. The Common Pleas Court's latest ruling is that the legislature made only minor changes to these programs and they are still unconstitutional. Judge Lewis found that the requirements of HB 412, passed in 1997 will require either additional borrowing or additional property taxes, both of which go against the Supreme Court's ruling. He found that "debt incurred by school districts prior to 1998 will burden districts through 2007" (p. 69). He cited testimony from superintendents of districts in the State's Fiscal Watch and Fiscal Emergency programs, showing the detrimental effects of the State's oversight on the quality of academic programs.

Failure to Take Responsibility. "The Court finds, as a matter of law, that the State has failed to enact legislation that recognizes that there is but one system of public education in Ohio and that the establishment, organization and maintenance of public education are the State's responsibility" (p. 226).

The Cleveland Voucher Case

Since 1996 the State of Ohio has funded an experimental program of vouchers in Cleveland (see, for example, Archer, 1999). The vouchers may be used at any private school, including those run by religious organizations. The Ohio Federation of Teachers led a group that challenged the constitutionality of the program. On May 27, 1999, the Ohio Supreme Court ruled in Simmons-Harris v. Goff (1999) that except for one small provision, the Cleveland voucher program does not violate either the state or federal constitution's prohibitions against establishment of religion, nor does it violate the Ohio constitution's "thorough and efficient," "school funds," or "uniformity" provisions. However, the program was ruled unconstitutional under the Ohio constitution's "one-subject rule," which states that bills in the General Assembly must contain only one subject. Since the voucher program was enacted within an omnibus state government appropriations bill in 1995, it violates the one-subject rule.

The Court determined that the Cleveland voucher program was established for a legitimate secular purpose and neither advances nor inhibits religion, since funds cannot reach a religious school unless parents, independent of the state, decide to send their children there. They found that the program is general and it benefits children, not religious schools. They found no evidence that the state is involved in religious indoctrination, and found no excessive entanglement of government with religion. However, one provision of the law permits schools to give preference to children whose parents are members of the organization sponsoring the school. The Court said that this "provides an incentive for parents desperate to get their child out of the Cleveland City School District to 'modify their religious beliefs or practices' in order to enhance their opportunity to receive a School Voucher Program scholarship" (p. 7). Thus that particular provision violates the First Amendment and is unconstitutional. The Court stayed its order to permit voucher students to finish the 1998-99 school year.

The Governor And The Legislature

The position of the Governor and the legislative leaders is that until the Supreme Court rules again in DeRolph, they will continue the phase-in of the school funding formula begun in 1997. The final version of the FY 2000 & 2001 biennial budget (HB 282) does accomplish the foundation level recommended by Augenblick a year earlier (FY 2001) than previous legislation. However, Augenblick recommended that level for FY 1998. The General Assembly for the first time enacted appropriations for K-12 and higher education in a separate bill from the rest of state government, in response to the Court's ruling in DeRolph that the appropriation for education must not be a "budget residual." Since the bill was about one subject --education-- they re-enacted the Cleveland voucher program within the appropriations bill. Funding is provided so that fifth grade voucher students may continue to attend private schools in grades six and seven. A new Kindergarten class will also qualify for vouchers this fall.

Legislation creating community (charter) schools, first enacted in 1997, was expanded in HB 282. Currently 17 community schools are operating, and 35 more have been approved. HB 282 permits an additional 75 schools in FY 2000 and 125 in FY 2001 (Leonard, 1999a). A new section of law about identifying and serving gifted students was also included. A major theme sounded by many members of the General Assembly during the debate on the education budget was "accountability." There will be more and more scrutiny of those school districts that fail to meet state standards for passage of the proficiency tests and graduation and attendance rates. The scrutiny focuses especially tight on the large urban districts.

In the general state government appropriations bill, the General Assembly enacted a gradual elimination of the personal property tax on business inventories, with no specific method for replacing the revenues. Legislators maintained that schools can adjust to the gradual loss of this revenue, which currently totals about $474 million statewide. The Education Tax Policy Institute, created by the Ohio School Boards Association and the Buckeye Association of School Administrators, estimate the elimination of the inventory tax will cost schools $19 million in the first year. Most of the phase-in will occur after many current legislators leave office because of term limits.

Ohio, like many other states, will have a budget surplus for the fiscal year ending June 30, 1999. In his budget message in March, Governor Taft advocated using any surplus revenues for school construction and technology. The estimated surplus at that time was at least $400 million. Many legislators wanted to use the entire surplus to fund income tax reductions. There is a tax-reduction provision already in place that will automatically decrease CY 1999 income taxes by whatever amount is in the budget surplus fund. Governor Taft was able to maintain $415.7 million for school facilities and technology; another $230 million will provide an estimated 3.2% income tax reduction (Leonard, 1999b).

What's Next?

Plaintiffs in the Cleveland voucher litigation have now filed another suit in federal court on church-state grounds. The Ohio Supreme Court is expected to rule again in DeRolph, sometime in 2000.

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ONTARIO

Financing Education in Ontario – Update

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The financing of education in the province of Ontario underwent major examination in 1995 and extensive restructuring in 1997. The events associated with this activity were reported in the monographs edited by Yasser Nakib (1997) and Donald Tetreault (in press). This paper provides the reader an update of the financial reforms that are taking effect in the province of Ontario for the 1998-99 year.

The1998-99 school year saw the introduction of the student-focused funding model for the distribution of money to elementary and secondary education. The model professes to be based on students' needs rather than the local community's wealth, thus the name of the model. Also, the Ministry is very vocal on its stance that the new funding model is geared to put more money into the classroom and less into the administration of school system. This rationale has met the predictable resistance from within the administrative ranks of school systems. It is a battle that will have no declared winner until the new model has had an appropriate implementation testing time.

In a news release on March 25, 1998, the Minister of Education and Training stated that "Education spending will be stable at more than $13 billion for each of the next three years. When combined with current teacher pension contributions, this will total $14.4 billion in 1998-99. In addition, a total of $385 million will be provided to help school boards restructure and make a smooth transition to the new funding model and a reformed education system." In its first three years, the new funding model will increase the share of resources directed to the classroom from 61 to 65 per cent.

Ontario's new approach to funding education includes:

- Class Size Protection Fund that will provide $1.2 billion over three years to ensure that, on a board-wide basis, average class size does not exceed 25 pupils in elementary school classes and 22 pupils in secondary school classes.

- Funding for additional teachers will be provided where required because of enrolment growth support for early learning. All school boards will be able to offer Junior Kindergarten or alternative early learning programs.

- Learning Opportunities Grant to provide extra help for students at greater risk of academic failure because of their social and economic situations more than $1 billion in protected funding for special education funding for English as a Second Language and its French-language equivalent, Actualisation linguistique en français /Perfectionnement du français a one-time $50 million investment in learning materials such as text books and software

June 15, 1998 the Minister announced adjustments to allocated funding. These adjustments were dictated by needs of school boards trying to meet many of the new conditions set by the government. Adjustments were:

- a guaranteed level of funding for special education, to ensure that programs and services for students with special needs will be in place for September 1998.
- an additional $30 million provided to ensure boards meet the requirement of maximum average class sizes of 22 pupils at the secondary level.
- Boards given the flexibility to make local decisions about how to provide the 600 hours of Core French instruction required at the elementary level.
- Boards given extra time to plan for effective student accommodation.

The need for adjustments signaled and continues to signal that the Government is moving more quickly than the education system can reasonably be required to adjust. The direction of the Government has general support in and outside of the education system but the speed and quantity of reforms is causing some concern and the necessity to adjust financial support and timelines by the Government.

The new student-focused funding model replaces the former thirty-four different types of grants with eleven. The eleven types of grants school boards may be eligible for being:

- Foundation grant to provide for the core education of every student.
- Special Purpose Grants to recognize the different circumstances faced by students and school boards:

  1. Special Education Grant – a two-part grant. The first part would provide flexible funding to meet the needs of most exceptional students, while the second part would meet the needs of specific students who require specialized high-cost assistance.
  2. Language Grant – to support a range of programs to help students learn the language of their classroom or a second language.
  3. Early Learning Grant – to ensure that school boards have the resources to design early learning programs that best meet the needs of children in their communities.
  4. Learning Opportunities Grant – to support a range of programs designed to help students who are at greater risk of academic failure because of their social and economic situations.
  5. Geographic and School Authorities Grant – to pay the additional costs faced by boards in rural and remote areas, boards operating small schools or serving sparse student populations, and school authorities.
  6. Teacher Compensation Grant – to give school boards the funds they need to

recognize teachers' qualifications and experience.

7. Adult and Continuing Education Grant – to fund education for adults 21 and over including credit courses leading to an Ontario Secondary School Diploma and non- credit second-language training in English or French; this grant also funds summer school for secondary school students and International-languages instruction (often called "Heritage Languages").
8. Transportation Grant – to pay for bussing and other student transportation.
9. School Board Administration and Governance Grant – to pay for the cost of trustees, directors and supervisory officers, and central administration of school boards.
10. Pupil Accommodation Grant to pay for building new schools; operating and maintenance costs (heating, lighting, cleaning); repairs and renovations; and capital debt servicing costs

In addition, the new approach to funding requires a greater accountability from school boards to parents and taxpayers in terms of how they are spending education dollars. This move can in part be reasoned on the basis that the Ministry will need evidence that its new "classroom" and "student" focused funding are paying the dividends promised to parents and taxpayers and to ensure that should school boards attempt to undermine the new approach they are accountable not only to the Ministry but parents and taxpayers whose children and tax dollars are being affected.

This greater fiscal accountability of school boards is evident by the following government provisions:

- Targeted allocations, which will be monitored by the Ministry of Education and Training to ensure that funds are spent appropriately and for the purposes intended.
- A requirement that school boards issue an annual Financial Report Card.
- An annual Report to Taxpayers from the Ministry of Education and Training, summarizing what each school board has spent.

Obviously, the education funding scene in the province of Ontario is changing. The change is not only in where the dollars are allocated but the conditions on which this allocation is made. The funding of education has always been a combined non targeted and targeted dollars. However, the prescription of how dollars are spent at the school system level is much more magnified now. Furthermore, although school boards have always been required to submit audited financial statements, the terminology change to financial report card elicits a different mind set among all players. There is now an implied judgment standard that is not known by those to be judged and an implied competition with other school systems within the province. When the systems need to cooperate with each other more than in the past because of fiscal constraints this competitiveness that is now implicit within the fiscal performance of school systems may prove unhealthy. Finally, the fiscal accountability to taxpayers is perhaps long overdue. Given that school taxes command a significant portion of any local taxpayer's tax bill, it is reasonable that an annual accounting for expenditures in terms of results be provided.

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PENNSYLVANIA

Pennsylvania School Finance: An Overview With Some State Aid to Schools and Property Taxation Considerations

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Overview

In 1997-98, the public school system in Pennsylvania included 501 districts made up of 3,179 schools that served 1,815,151 pupils (Hruska, 1998a, 1998b, 1998c; Pennsylvania Department of Education, 1999). In 1995-96, total school revenues were approximately $13 billion, of which 40.2% and 3.2% derived from state and federal coffers to support an average per pupil total expenditure of $7,455 (Hobaugh, 1997). Relative to other states, Pennsylvania tied for fifth-place with Ohio in per pupil expenditure, ranked behind Alaska, New Jersey, New York, and Connecticut in 1995. That same year, Pennsylvania ranked seventh in pupil membership behind California, Texas, New York, Florida, Illinois, and Ohio (U.S. Department of Education, 1995). As reported by Hobaugh (1997), during the period 1987-88 to 1995-96, school district total expenditures increased 72 percent, representing increases to instruction (82%), support services (55%), non-instructional services (54%), and debt services and fund transfers (94%); and, a decrease to facilities and acquisitions (38%).

State aid for schools in Pennsylvania is allocated through a foundation program that in some respects operates like a percentage equalization program. That program is the Equalized Subsidy for Basic Education (ESBE) and the formula is driven by pupil weightings for different levels of schooling as well as average daily membership (WADM). In addition, the foundation program calculations that measure the relative function of local wealth include both the market value of real estate properties and personal incomes as formulated below:

Market Value Ratio: 1 – (Local Market Value per WADM
÷ State Market Value per WADM × .5)
Personal Income Ratio: 1 – (Local Personal Income per WADM
÷ State Personal Income per WADM × .5)

To arrive at a singular but weighted ratio of relative wealth, 60% of the Market Value Ratio is added to 40% of the Personal Income Ratio to equal the Wealth Ratio used in the foundation formula below:

Foundation × Wealth Ratio × Membership

The traditional foundation feature of the state aid program is then supplemented by equity aids for school districts that serve low income families, low wealth communities, high population density communities, and low educational expenditure communities (adjusted for local wealth), and, small district assistance aid is provided (Nelson, 1995). While the equity supplements mentioned above are formulated to increase in a fashion that characterizes percentage equalization programs, the State is also committed to providing additional "equity" aids when necessary to bring each school district up to a foundation amount that was $4,700 per pupil in fiscal year 1994.

School Finance Issues

Data provided by Hobaugh (1997) suggest that the proportion of state funding to total funding for schools in Pennsylvania has begun to reverse an earlier trend toward decrease but that the proportion of state funding is relatively stable at about 40 percent over time. Corresponding proportions for federal and local funding over time have been about 3 percent and 57 percent, emphasizing the continued reliance of school programs on local taxation. Moreover, a report by McClure and Angevine (1995) suggested that the state equalization aid program was not doing enough to enhance school funding in Pennsylvania's low wealth districts and a recent study by Hartman (1999) confirmed that the highest spending school districts in Pennsylvania were wealthy districts. Herein lies the perennial problem that politicians consistently fail to address adequately, let alone equitably: How to effectively support school programs in low wealth schools, districts, and regions? Given that there are only two sources of funding that historically provide 97 percent of all school funding in Pennsylvania – state aid to schools and property taxation – each bears further consideration.

State Aid to Schools. The ESBE foundation and supplements support the redistribution of state resources to places where they are most needed (Nelson, 1995). First and foremost, a wealth ratio is integral to the foundation formulation that mathematically drives greater amounts of funding to relatively lower wealth school districts. An important strength of the current wealth ratio is that it takes into consideration both properties and incomes rather than one or the other (stereotypically, property valuation). As well, equity supplements to the foundation express a further commitment to aiding relatively lower wealth school districts; however, the net financial effects of these progressive steps toward equity can be limited by other types of supplements or enhancements, flat grants, and percentage equalization criteria that include floors, caps, and other mitigations such as "hold harmless" guarantees (Sweetland & Jacobson, 1998).

Property Taxation. Whether or not state aid to schools programs are designed to effectively satisfy local educational program needs, the fiscal safety net is inevitably the ability and willingness to tax local bases of wealth. This historical dependence on local fiscal control can intensify local deficits when state aid to schools programs are unable to adequately fund educational programs. For example, Hartman's (1999) analysis of 1993-94 school expenditures revealed that the highest spending district in Pennsylvania expended $10,267 per pupil as compared to $3,608 expended by the lowest spending district (p. 394, Table 1). Potential local tax bases per pupil were property value ($347,868) and personal income ($170,558) for the high spending group of school districts and property value ($98,700) and personal income ($46,866) for the low spending group of school districts (p. 396, Table 2). Among other findings, these comparisons demonstrate that great differences in local tax bases exist and imply that deficits in state aid place about 350 percent greater fiscal pressure on low spending versus high spending districts at times when additional local school funds are required.

Possibilities and Conclusion

In many respects, the Pennsylvania system of school finance typifies fundamental difficulties encountered when fiscal support for public education is closely examined. Historical reliance on local control is exhibited and reinforced by local financial resources that in Pennsylvania amount to 57 percent of total support; the federal share is small; and, state resources are mired in the negotiation and compromise of politics. While the distribution of state aid in Pennsylvania is skewed toward low wealth school districts that receive 58 percent of their support from the State (see Hartman, 1999, p. 405, Table 6), those districts spend far less on their education programs that may not be able to adequately provide high quality educational services. The public policy response, as noted by others including Brent and Monk (1995), Edlefson (1995), and Sweetland and Jacobson (1998) in New York and Ohio, is to add new state aid distribution formulas that increase complexity, not necessarily equity or adequacy. The Pennsylvanian response to these issues appears similar and transparently fixated on past practice through hold harmless guarantees that essentially limit meaningful state aid remedies to incremental budget appropriations.

A guaranteed minimum of state aid based on historical allocations in aid simply replicates past mistakes (unless traditional fiscal formulas actually fulfilled their intended public policy objectives). The approach may be commonly used because it is simple, easily explained, and politically appealing, creating the impression that nobody loses. The one accountable strength of the approach is that it does tend to stabilize school district operating budgets for school administrators who need to plan and gain public support for tax levies well in advance. While this important strength cannot be immediately substituted, reasonably planned phase-in procedures can be used to accommodate reasonable planning horizons for school district administrations. In 1998-99, the Pennsylvania basic school aid appropriation is about $3.5 billion. The basic aid distribution schedule guarantees that school districts will receive an amount equal to their 1997-98 allocation, meaning that approximately $121 million (3.5% over last year) is available for new policy innovations or past policy corrections (Pennsylvania Department of Education, April 1998). In essence, after the fulfillment of guarantee obligations, only a normative inflation factor is available to pursue equity and adequacy priorities. If politicians and their constituents are serious about progressive public policy changes, they will need to secure a much larger financial increment for state aid, revise their hold harmless guarantees, or manipulate the distribution of tax proceeds from local tax bases.

The pervasive corollary between local wealth and local educational spending in Pennsylvania (see Hartman, 1999) will not likely change unless local tax bases are more broadly defined. The extreme example of this would be to consider all properties and incomes across the state as a single tax base available equally to all jurisdictions and local school districts (Sweetland & Jacobson, 1998). While this extreme approach would most likely be politically impossible, a more moderate approach would be to aggregate nonresidential properties and incomes by region. A recent study conducted in New York State found that the formation of regional jurisdictions would further the fiscal interests of large urban school districts more so than a statewide taxation boundary (Brent, 1999). Another major taxation alternative to redefining local, regional, or state tax jurisdiction boundaries would be to implement "recapture" provisions across the state. A recapture provision would basically require that relatively wealthy districts forward a portion of their local tax collections to state authorities for redistribution to lower wealth school districts. Swanson and King (1997) comprehensively discuss this alternative and provide practical computer simulations that demonstrate how recapture provisions can be used to achieve more equitable distributions.

While expanded tax base and local tax recapture measures are supported by strong theories, it has been most difficult to reconcile them with political practices. All of the options redistribute wealth and are perceived to encroach upon the freedoms of local control. How these economic threats could realistically have adverse effects on statewide educational programs and outcomes is unclear but the contemporary political environment is set steadfast against such public policy options. What is clear, however, is the now common observation that the rich are getting richer and the poor are getting poorer; Hartman's (1988, 1994, 1999) longitudinal comparisons demonstrate that this broadly observed economic phenomenon also applies to the tax bases of high and low spending school districts in Pennsylvania. As this trend continues, and the Nation inevitably encounters cyclical economic downturns, the spending gap between high wealth and low wealth school districts will likely increase sharply, unless public policy makers take the fundamental and bold steps required to reform current distributions of taxable wealth and state aid to schools.

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SASKATCHEWAN

Progress in Special Education Funding in Saskatchewan

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In 1998, the Government of Saskatchewan announced a Review of Special Education which will be used to shape the future of special education in Saskatchewan (SK) for the next decades. In support of the review, the authors chose to examine recent changes in education funding, paying particular attention to special education. In the first section of this paper, the funding of education in SK is described with particular attention to special education programs. In the second section, we discuss the most recent changes in the budget. In the third section, we provide the analyses of available financial data principally from the summary of the Foundation Operating Grant provided by SK Education. In the final section, we present our discussion and conclusions.

The Foundation Operating Grant

In Canada, education is a provincial concern. In SK, there are about one hundred smaller administrative districts or school divisions (SD) of various sizes, and the legal authority for education is an elected board of education for each division or district. The chief executive officer in each division is a locally appointed Director of Education. The SK Education Act states that Boards of Education must provide services to all pupils between the ages of 6 and 22 at no direct cost to their parents.

Funding for education comes from two main sources - property taxes and provincial grants. The proportion of funds provided for education from provincial grants has been steadily decreasing. Currently local school boards obtain about 60% of their funding from property taxation and 40% from provincial grants. Grants are determined by subtracting recognized revenue from recognized expenditures. Recognized revenues are determined by multiplying taxable assessment by an equalization factor. Recognized expenditures result by multiplying the enrolments by a basic rate and adding additional adjustments and incremental rates for predetermined factors. In reality, recognized expenditures may be considerably less than actual expenditures, and the equalization factor reflects the provincial governments willingness or ability to pay for education.

Recognitions for Funding Special Education

The amounts and methods of provision for funding for Special Education have evolved over time as needs have changed. This funding assists with the provision of appropriate programs and services, and improves the quality of educational programming for students with exceptional learning and behavioral needs. The trend in SK is to mainstreaming of special needs students in so far as possible. All funding for Special Education in SK is conditional on the programs actually being provided for identified students. Data must be supplied identifying the students, naming the staff, itemizing any special technology purchased and itemizing any special transportation which is provided.

There are three categories of funding. The first is per pupil funding for low incidence disabilities. The second is program recognition for services for students with high incidence disabilities. The third category includes various ad hoc recognitions.

Children with low incidence disabilities. Assisting a relatively small number of students who are deaf or hard of hearing, and children with visual disabilities, mental handicaps, orthopedic disabilities, chronic illnesses, or multiple handicaps, the Designated Disabled Program (DDP) provides a per pupil grant recognition to cover the costs of assessment and high cost assistance. The level of funding recognition is $4752 or $7088 per child, depending on the intensity of need. Additional funding recognition for extraordinary staff-intensive programming is provided through the Supplemental Designated Disabled Program (SDPP).

The total amount of money that is recognized for the DDP and SDPP for a particular SD is divided by an established unit value, currently $41,200, to give an approved staff equivalent. This approved staff equivalent is compared to the actual staff in place to work with disabled children. Each excess staff is recognized for a grant of $5,000.

DDP also provides extra funds recognition for students in the care of Social Services with severe social, emotional and behavioral disabilities. Finally, recognition is provided for special equipment such as FM systems, braillers and lap top computers. Prior approval must be obtained before purchase, and ownership of the equipment rests with SK Education, although the SD is responsible for the insurance and maintenance contracts

To provide access for students with disabilities, there is recognition for transportation needs. Funding is provided for wheelchair lifts on school buses. All new buildings must, of course, be wheel chair accessible, and funding assistance is available for minor accessibility renovations in existing buildings.

Children with high incidence disabilities. The extra funding for the education of children with high incidence disabilities is not individualized. It is provided through a program grant recognition, where staff working with the specific students are recognized, rather than the individual student. The funding which includes a Special Needs Program (SNP), a Targeted Behaviour Program (TBP) and Shared Services recognizes the needs of those children who require individual assessment and will benefit from regular assistance both inside and outside the regular classroom

The SNP is provided for students with mild and moderate forms of the designated disabilities, learning disabilities, speech-language disabilities and gifted learners. The amount recognized is based on the per capita enrolment in the SD. One full-time equivalent for every 200 students in the amount of $27,500 is recognized, only if programs are in place and actual staff are employed.

The amount recognized for the TBP is based on actual personnel working with the students in question in the amount of $27,500 per full-time equivalent and is targeted towards students with, or at risk to develop, exceptional social, emotional and behavioral problems. The money is for prevention, early intervention and intensive programming.

Shared Services funding is provided outside the two largest cites in SK. Groups of SDs work together to hire a speech language pathologist, an educational psychologist and up to 3.5 other personnel (depending on the number of students served), to provide special services. Funds are recognized to each SD on a per student basis in the amount of $266,994 for 4.5 full-time equivalent professional staff and 8000 pupils.

Other programs that are provided for the education of children with special needs in SK include integrated pre-school programs in inner city or community schools, alternative schools, programs for students with severe social, emotional and behavioral problems who cannot be dealt with in the regular classroom and programs for students who are deaf-blind.

Operating Grants for 1999/2000

In the March 26, 1999 budget, the Government of Saskatchewan provided an increase in funding of 3.5% for K-12 education, raising the total to $400.9 million. This included an increase in the foundation operating grant of $13.5 million and an increased grants-in-lieu of taxes contribution for government buildings of $1.8 million, for a total increase of $15.3 million . The capital construction and repair budget of $24.2 million remained unchanged from the previous year.

SK Education reported three foci for this increased recognition for funding: basic program ($10.5 million), learning technologies ($1.0 million), and community and aboriginal education ($2.0 million). The increase in the recognition for the basic program was achieved by increasing all basic per pupil rates by 1.5% to the levels indicated in Table 1.

Table 1
Per Pupil Rates Used in the Funding Formula for Recognition

Level	Kindergarten	Elementary	Middle	Secondary
Urban	1683	3254	3488	4019
Rural	1803	3468	3718	4266

The funding recognition for learning technologies was accomplished by increasing from $20.00 to $24.00 the recognition for the implementation of Core Curriculum initiatives. It was specified that the additional $4.00 be used to support the use of new learning technologies and distance learning initiatives.

Community Schools and the Indian and Metis Education Development Program received additional recognition of $2.0 million. While the funding recognition for the existing programs remained unchanged, five new community schools in city SDs were added to the roster. Additionally, a number of community education programs in rural areas were supported, including $500,000 provided for Aboriginal Elder Programs.

The equalization factor or computation mill rate was increased from 14.8 to 15.0 mills. This increase in mill rate has the effect of pushing more of the burden on the SDs, which are then forced with either cutting programs again, or raising additional property taxes. While the increase in the basic program looked attractive, in effect the total increase was used to support an increase in teachers salaries which had already been negotiated. In SK, teachers' salaries are bargained provincially and are not directly a part of the funding formula. The SK School Trustees Association, suggested that the total salary increases following government wage guidelines would cost SDs approximately $15.0 million - the amount of new funds available for K-12 education.

Examining the Last Seven Years

The number of students in the K-12 educational system has decreased during the last seven years. This steady decline in the number of students (see Table 2) represents 2.7% of the 1993/94 student population. During the last year, while there has been a decline in enrolment in kindergarten, elementary, and middle years; secondary enrolment has increased. Given these demographics, it can only be expected that total enrolment will continue to decline in the foreseeable future.

Table 2
Enrolment in K-12 for the Funding Years 1993/94 to 1999/00

K-12	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
Enrollment	196235	195951	195262	194602	193785	192508	190917

Special Education Funding

From 1993/94 to 1999/00, SK Education increased the number of categories in which they recognize special education needs. In 1993/94, special needs recognition was based on 5 categories – additional amounts beyond the basic per student recognition for two groups of students with low incidence disabilities included in DDP, a special needs program (SNP), special needs transportation and a program to support Shared Services. In 1998/99, there were four additional categories for recognizing expenditures to special education were added, and these categories continued for 1999/00. These categories were TBP, technical aids, fractional funding (which supports students with designated disabilities who transfer during the year) and the SDDP.

In the same seven-year time frame, while enrolments declined by 2.7%, the number of high cost students in DDP increased substantially by 45% (see Table 3). Consequently the percentage of children covered by DDP rose from 1.17% to 1.76% of the SK K-12 enrolment.

Table 3
Number of Students Specified in the Designated Disabled Program

DDP	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
High Cost 1	1335	1344	1361	1446	1558	1746	1850
High Cost 2	970	983	1098	1143	1239	1309	1503
Total	2305	2327	2459	2589	2797	3055	3353
Enrollment	196,235	195,951	195,262	194,602	193,785	192508	190917
DDP/ Enrollment	1.17%	1.19%	1.26%	1.33%	1.44%	1.59%	1.76%

The dollar amounts per student recognized by the Province increased over the seven-year time frame from $4454 to $4752 for High Cost 1 and from $6654 to $7088 for High Cost 2 students. However, after consideration for increased teaching salaries, a commensurate measure for cost of education, the high cost allocation amounts for the DDP after adjusting for salary increases were at their lowest level in 1999/00.

However, the total actual amounts recognized for special need programs increased substantially (46%), from $46 to $67 million, through the introduction of new programs and the increase in the number of students recognized. After consideration for the increases in the cost of education and the decrease in the proportion of government's funding to the SDs produced by increasing the equalization factor, the actual increase in spending was 25%.

Conclusions

Policy decisions made to increase the recognition for special needs education are evident in the increased number of DDP students recognized from 1993/94 to 1999/00. With a decline in SK student population of 2.7%, there was a 45% increase in the number of DDP students recognized. Secondary support for our perception of favourable policy decisions was a significant increase in the number of programs provided for special education.

Financial constraints mitigated against these favourable policy decisions. With an increase in the equalization factor or computational mill rate, the proportion of the special education expenditures paid for by the Province decreased. Adding to the increase in the equalization factor, the increase in the costs of education represented by the increase in teachers' salary produced a further deterioration in the value of the dollars to special education.

Only in the 1997/98, 1998/99 and 1999/00 years did the financial picture for special education truly improve. This may well have been a result of an improved financial position for the Province of Saskatchewan. Alternately, it might be suggested that the idea for the Review of Special Education had been conceived and the need to show an improvement in the funding for special education drove the increase in number of DDP students recognized and dollar recognition per student.

Because children with low incidence disabilities are not randomly distributed throughout the province, the identification of students and monitoring of expenditures by SK Education is warranted. However, the levels of funding recognized, such as $27,500 for one full-time equivalent staff, appear inadequate.

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SOUTH CAROLINA

South Carolina's Juggling Act: Accountability, Adequacy, and Business-minded Reform

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Overview

In 1998 major school reform emerged from the General Assembly with passage of the Education Accountability Act (EAA). EAA represented the most sweeping education reform in the state since 1984 by establishing statewide academic standards and assessments, applied accountability measures for schools and districts, technical assistance for under-performing schools and districts, and class size reduction dollars for grades 1-3.

The momentum of EAA's passage carried over to the 1999 legislative session, where the General Assembly again produced a landmark year in education reform initiatives and complementary funding support. Teacher salaries across the state were increased to $325 above the Southeastern average, providing a raise of about 4.7 for most teachers. By a one-vote margin, the House approved a $1.1 billion statewide bond for school construction and renovation during the next four years; $750 million is earmarked for K-12 schools.

The last year of this century also saw the emergence of South Carolina's new Democratic governor - Jim Hodges, as well as the first new state Superintendent of Instruction in eight years (elected), also a Democrat.

The Political Landscape

In South Carolina's General Assembly the House is Republican dominated; the Senate has a slim Democratic majority and is generally in line with the governor Jim Hodges. Both sides are fighting to take ownership of the education reform agenda - both past and present. For example, the House majority leader often states that "...*we* [i.e., the Republicans] passed the ***Republican*** Education Accountability Act (of 1998)," and frames the reform debate by alleging that Democrats are "playing politics with education, and we need to de-politicize education."

For their part, Democrats in the Senate have consistently emphasized education funding as their first priority, followed by later consideration of any tax cuts, a favorite theme among Republicans in the state. Republicans in the House believe that in the current times of state economic prosperity, adequate funding and tax cuts can both be achieved. For example, the House majority has leader proclaimed that, "...we passed record new education funding focusing on things that will get results..." and "...real, true tax relief for South Carolina families" (Wilkinson, 1999).

Business-Minded Reform

Education reform ideas in South Carolina tend not to come from the education community. In fact, there is little confidence in educators across the state. The reason for this is unclear, but may be related to the eight-year legacy of the previous State Superintendent of Instruction, whose close alignment with the state Chamber of Commerce, and subsequent top-down implementation of the In$ite financial accounting system, won her little praise from public educators (Tetreault, 1998).

For their part, business leaders see the education community – and the entire pubic education system – as bureaucratically entrenched, ineffective, and unresponsive to change. Business leaders also find it hard to fathom the lack of evaluative efforts, and the absence of data, in making sound management decisions in the schools. They tend to see public education not as a social issue, but as an economic development issue. Simultaneously, there is a clear lack of understanding among business leaders regarding the complexities of delivering educational services in an environment of adequacy and equity.

As a result, business leaders continue to "tinker" with education reform in the state, as they continue to express concern that if the state's schools do not produce trained workers, businesses will not be attracted to the state, and unemployment will rise.

The University of South Carolina's School of Business, which has no history of involvement with K-12 public education in the state, has established a public-private partnership with the Business School and the College of Education at the University of South Carolina, and Carolina Light & Power. The resulting Principal's Executive Institute, developed in response to perceptions that principals' skills need to be improved in order for the new Education Accountability Act initiatives to succeed, is intended "train principals to be CEOs." Emphasis will be placed on training principals from the state's 27 impaired schools.

This program is in addition to the existing Leadership Academy (established in 1981), and would result in two "training institutes" within the state. It is unclear, however, to what degree the Principal's Executive Institute would respond to real needs in the schools. For example, there have been no studies to document that the absence of CEO-like skills among principals is a liability in school reform efforts. Further, it is unclear why the existing Leadership Academy could not be expanded, rather than layering an additional training program. If CEO skills are essential, why not modify the existing Academy to include them?

During the 1998-99 legislative session, observers noted that "Educators had influential allies helping push high-profile education initiatives. Lawmakers frequently deferred to the state Chamber of Commerce's lobbyist on important issues to gauge where the business group stood" (Robinson, 1999).

Video Poker

Video poker in South Carolina is a $2.4 billion a year industry where "glitzy [poker] machines and garish poker parlors have become as much a part of South Carolina as boiled peanuts, cotton, golf courses, and BMW convertibles" (Pardue, 1999). The first poker machines came out in the 1970's and were virtually unregulated. Only in 1998 did the state Supreme Court rule that video poker was legal, noting that video poker is not gambling because it is a game of skill. The industry remains largely in the hands of native South Carolinians. The largest operator has 3,700 licensed machines, at least 1,000 more than the nearest competitor. In total, there are 34,000 poker machines found in 7,420 commercial establishments (about one-third of all retail establishments), ranging from gas stations to mom-and-pop grocery stores. The total number has more than doubled in the last seven years. Over $2.4 billion ($3,692 per pupil) was spent in 1998 playing video poker, providing $694 ($1,067 per pupil) million in profits after winnings payouts, a sum exceeding the total value of South Carolina's agriculture industry. Video poker employs 27,000 workers who make an average salary of $35,000

In 1990 the General Assembly increased the per machine license fee from $600 to $1,500, raising $18 million in revenues. Attempts in 1991 to regulate the industry by banning payouts failed over concerns of lost revenues to the state of $30 million.

The video poker industry spent more than $1 million in 1998 to defeat the re-election bid of Republican governor David Beasley with a campaign focusing on the state's "under-performing" schools. Beasley, as part of his re-election campaign strategy, had proposed a ban on video poker and submitted a state budget excluding $62 million in poker revenues. Although supported by the House, the Senate, claiming that voters should decide the video poker issue, forced a deadlock on the issue. Beasley subsequently lost the election to Democrat Jim Hodges.

Potential video poker revenues have historically played a critical role in General Assembly budget deliberations. For example, during 1999 key differences between the House and Senate budget proposals centered on the potential use of video poker revenues: Although the House narrowly defeated a measure to ban video poker altogether, a significant portion of the House bill depended on over $300 million in poker receipts. At issue is to what degree South Carolina should rely on revenues from a source that annually faces the threat of extinction. Confounding discourse on this issue is an undercurrent of religion-inspired morality and virtue, and the vestiges of decades of overt state-endorsed racism.

By mid-March 1999, the House had passed a $5.8 billion budget that, in addition to education funding proposals, included an 8 percent cut in car taxes and a 1 percent reduction in the sales tax on food. In total, these two proposals would reduce state revenue by $68 million. Further, in an effort to improve taxpayer equity, the House budget included a proposal to freeze tax relief in 25 wealthier school districts, and to provide more relief to homeowners in the remaining 61 poorer districts "that lack a significant commercial tax

Table I
Mid-Legislative Session Comparison of 1999-2000 Education Funding Proposals

Issue	Governors Proposal[1]	House Ways & Means Proposal[2]
Early Childhood Initiative	$20 million in start-up funding for 12 grants under a program called First Steps that would provide education and health services to pre-school age children	$3 million for a program called Jump Start that would target educational and health services to 3 and 4 year olds in 7 challenged school districts
Class Size Reduction	$48.6 million for a 17:1 ratio K-3	$16.2 million for 17:1 in grade 1 only
Teacher Pay Above the Southeastern Average	$12.8 million to raise teacher pay by $300 above the $35,869 regional avg	$12.6 million to raise teacher pay by $325 above the regional avg
Reading	$3 million for an Institute of Reading, plus $800,000 for existing Reading Recovery program	$800,000 added to existing Reading Recovery program
Technology	$25 million for laptop computers, emphasizing SAT tutoring programs	$9 million for school-based technology
School Construction	$125 million for K-12 schools	$4.5 million for K-12 schools
Transportation[3]	$15 million for new buses	$8 million for new buses
Bus Driver Salaries, etc.	$6 million for raises, fuel, parts	$1.1 million for raises
Summer School	In supplemental budget, $10 million for summer schools, alternative schools, and extra pay for teachers who write up assistance plans	$10 million to address "needs created by the 1998 Education Accountability Act"
Alternative Schools	See Summer School above	$8.9 million – the 1st installment – of a 2-year phase-in for mandatory alternative schools statewide
Academic Assistance Plans	See Summer School above	$6.2 million to pay teachers in grades 3-8 for every individual study guide required by state law
Principals' Executive Institute	Supports House Proposal	$1 million to satisfy a request from State Superintendent
TOTAL	$266.2 Million	$81.3 Million

Chart reproduced from The State (1999, March 14), p.A8.

[1] Governor Hodges is a Democrat. Democrats have a slim majority in the Senate.
[2] The House is Republican controlled.
[3] South Carolina is the only state that owns and operates its own public school transportation system.

base." The proposal, the House contends, would be fairer because it would base relief on population instead of tax rates. The current statewide cost of property tax relief, passed in 1995, is estimated at $240 million and promises to continue growing annually.

Table I, which identifies various education reform funding proposals mid-legislative session, highlights the spending priority differences between Democrats (represented by the Governor's proposals) and Republicans (represented by the House Ways & Means committee).

New Programs and Initiatives

By the summer of 1999, the General Assembly had approved several major pieces of legislation, including First Steps, the centerpiece of newly elected Governor Jim Hodges' education reform efforts (modeled after a similar program in North Carolina). First Steps provides $20 million, distributed to grass roots organizations in each of South Carolina's 46 counties, to assist pre-school instruction, health screenings, and parenting classes. Further, as an expansion of EAA's first-year alternative school seed funding, $6.9 million was approved with a guarantee for each district of $30,000. Under the program, districts pooling their efforts for the development of alternative schools could get as much as $350,000.

In 1999 additional funding was also provided for further class size reduction ($17.2 million), expanded summer school ($10 million), school safety officers ($7 million), a Governor's Institute of Reading ($3 million), a Principal's Executive Institute ($1 million), laptop computers for SAT training ($1 million), and extra training for teachers to assist in the implementation of EAA ($1 million).

The legislature also approved a November 2000 referendum on a statewide lottery to assist in public school funding. South Carolina's constitution currently prohibits a lottery. Newly elected Governor Hodges built his education reform platform around the notion of a lottery as a much-needed financial resource for schools. Despite a virtual barrage of newspaper editorials and warnings about the danger of lottery revenues supplanting education spending, public sentiment appears to favor a lottery, largely due to the apparent success of Georgia's lottery in funding schools. On the same November 2000 ballot, voters will consider lowering the state's car tax from 10.5 to 6 percent.

Many public education reform advocates, and even many practicing classroom teachers, find the notion of lottery revenues particularly appealing. South Carolina's state constitution prohibits a lottery. By some estimates, lottery revenue could produce up to $40 million annually for schools. Georgia's highly publicized success with a state-run lottery has strongly influenced the views of South Carolinians. At odds with these pro-lottery views is a strong Christian fundamentalist view throughout the state of gambling as an immoral activity. Voters will decide on a statewide lottery in a November 2000 referendum.

School Finance Litigation

A lawsuit was filed in 1993 when forty of the state's school districts challenged the state's unequalized method of funding teacher fringe benefits, transportation, construction, and textbooks (Abbeville v. South Carolina, 1993). The plaintiffs further charged that the state's definition of a minimum education program was outdated because it failed to include the above programs as part of a "basic education."

In 1996 the suit was dismissed by a lower circuit court. The ruling was appealed to the South Carolina Supreme Court. In April 1999 the court, in a 4-1 decision, upheld the system of financing schools, finding the state's system of financing schools to be constitutional, but noting that the lower court "erred in using judicial restraint, separation of powers, and the political question doctrine as the bases for declining to decide the meaning of the education clause." The court went on to declare, citing cases in New York, Oklahoma, Tennessee, and Nebraska:

> "We hold today that the South Carolina Constitution's education clause requires the General Assembly to provide the opportunity for each child to receive a minimally adequate education.
>
> "We define this minimally adequate education required by our Constitution to include providing students adequate and safe facilities in which they have the opportunity to acquire:
>
> 1. The ability to read, write, and speak the English language, and knowledge of mathematics and physical science
> 2. A fundamental knowledge of economic, social, and political systems, and of history and governmental processes, and
> 3. Academic and vocational skills"

The court also noted the responsibility of the General Assembly, as stated in the South Carolina Education Code, "To guarantee to each student in the public schools of South Carolina the availability of at least minimum educational programs and services..."

In upholding the state's school funding system, the court remanded the case to the lower court, where the litigants are charged with determining the core components of an adequate education, estimating their subsequent costs, and presenting these "adequacy models" to the court. The final outcome of the case remains uncertain as litigants prepare their arguments for presentation in early 2000.

Summary

By several measures, South Carolina seems to be making education reform progress, albeit incremental. Although statewide test scores fare poorly in national comparisons, the past two years have seen the development and implementation of reform-minded structures - an accountability system, school report cards, early childhood programs - which, in the long-term, may prove fruitful. Given South Carolina's conservative political landscape, however, it is unclear whether the General Assembly will muster the fiscal determination to stay the course.

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TENNESSEE

Education Finance Reform in Tennessee, 1999: Tax Reform, Teacher Salary Equity and Charter Schools

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The Education Improvement Act (EIA) as passed by the Tennessee legislature in 1992 incorporated among other things a new method of distributing state revenue to local school districts. The new distribution formula was one based both on a calculated cost of providing "Basic" education services to students and a wealth measure of the local school districts. The "Basic Education Plan" costing formula calculated the delivery cost of educational services based on forty-two deliverables. The funding allocation was also differentiated into classroom and non-classroom categories. In the total state-funding plan, the state would provide 75% of the cost of the classroom category and 50% of the non-classroom category. The revenues were then to be distributed to the local district based on such wealth factors as property assessments, retail sales and income levels.

In establishing a proper chronology of education finance activity in the last decade in the state of Tennessee, it is essential to select and consider several past and present key events in litigation and legislation. What follows is a synopsis of these events. Litigation in its current form has as its foundation the Tennessee Small School Systems (TSSS) V. McWherter equity action, whereby sixty-six small, mostly rural school districts sued for equal protection under the auspices of the State Constitution. Legislation trumped litigation with the 1992 passage of the Education Improvement Act, which contained the "Basic Education Plan" for redistributing state funding according to both the cost basis and relative wealth schema. However there was no reformation of the overall taxation methodology within the state, only an additional sales and use tax levied to provide the equalization funding for the state.

The State Supreme Court did find for the TSSS plaintiffs and ordered a five-year phase in of the legislated Basic Education Plan. Plaintiffs argued once again in an additional action against the phase in and for a statewide equalization of the levels of teacher salary. They based their protestations on the premise that the more wealthy districts could continue to increase the levels of teacher compensation and less wealthy districts could not have local access to sufficient revenues and the Basic Education Plan prohibited the use of those funds for salary increases. The Supreme Court found again for the TSSS plaintiffs on motion of appeal and indicated that teacher salary being the largest component of most local district budgets should be equalized. The state subsequently in remedy added additional revenues for those districts to equalize, however the TSSS has a current appeal that the remediation has not sufficiently effected salary equalization.

In the 1994-95 session of the Tennessee legislature, laws were passed allowing companies to establish themselves as limited liability corporations. It was only after the fact that the legislature discovered the LLC's were not liable for the state's franchise and excise taxes. Many companies currently operating in the state began immediate proceedings to convert to the tax sheltered LLC's. This loss combined with the growth of revenues from the F&E and sales taxes would leave the state in the position of having to reduce the proposed state $16 billion budget by a proposed $365 million. The governor called a special session of the legislature for two weeks beginning March 29, 1999. In addition, he rolled out a proposed tax reform plan and announced intentions to have it introduced as legislation. (Governor Don Sundquist, March 1999)

Tax Reform

Next to the sales tax, the taxes most important to the state's general fund are the franchise and excise (F&E) taxes paid by corporations. The F&E tax was adopted by the legislature in 1923. The F&E tax payments are producing far below budget projections for the current fiscal year. The legislature Fiscal Review Committee has estimated that largely because of this decrease in revenue, total revenue collections for the 1998-99 fiscal year will be short by $53 million dollars. The problem has been described as the tip of the F&E iceberg as many more corporations convert to LLC for the tax advantages they offer. The problem is growing inasmuch as the F&E projected revenues should have grown to $1.2 billion to $1.5 billion, but instead they are reported at $900 million and are expected to drop by over $100 million per year. (Smith 1999)

In the past, tax reform has taken the form of increasing the amount of state sales tax based on the revenues being subject to the inelasticity of the tax. The state has experienced growth in the business sector with the location and relocation of major business concerns. There has been a heavy reliance on the consumption based revenue growth that has accompanied the overall economic activity in the state. Tennessee is a border state with most other states on its border having either a lower sales tax or having removed the tax from food, medicines and other goods. With an estimated 53% of the state population living in "border" counties, there exist a great potential for exporting consumption tax revenues. There is a popular call for removing the tax from food and medicine as well as reforming the current regressive system. The Internet is also seen as a leak in consumption tax revenues with the Department of Revenue projecting a potential revenue loss of $61 million by the year 2000. The Congress has imposed a three-year moratorium on new Internet taxes, which will prohibit any activity on the part of states. The state is also projected to lose an estimated $90 million in mail order catalog sales next year. (Smith 1998)

Governor Sundquist's Tax Relief and Fairness Act of 1999 was introduced in the General Assembly February 22, 1999. The legislation proposed a repeal of the sales tax on grocery food and reportedly represented the largest sales tax cut in the history of the state. Local governments would lose their right to impose local option sales taxes on food but provision was made for state funds to reimburse local governments for the lost sales tax revenue and provided a formula for annual adjustments in the state payments to local governments. In addition, the bill also repeals the franchise and excise taxes and enacts the Fair Business Tax, which is to be computed on a basis of "net earnings" and "compensation" at a rate of 2 ½ percent. The first $50,000 in each category would be exempt from the tax. Compensation for individual industries and businesses was proposed to be capped at $300 million for Fair Business Tax purposes. The tax would apply to profits and employee compensation and would yield an estimated $1.85 billion a year. This level of projected revenue was computed to replace the F&E revenue and the state and local sales tax on food with a reported $400 million excess to meet projected budget needs. (Tax Relief and Fairness Act of 1999)

After calling for a special session of the legislature to consider tax reform and before the session could convene, the Governor decided to withdraw the proposed tax on payroll and profits and proposed extending the franchise and excise tax to all forms of businesses and broadens the 6% excise tax on net income to cover wages exceeding $72,000 to any employee. The new proposal cut the franchise tax from 25 cents per $100 to 12.5%. The new Tax Reform Act would still have removed the tax on grocery food but would have left the local option tax. Many of the goods and services now exempt from sales tax would lose that exemption. It had been estimated that if the exemptions were removed from all items now exempt from sales tax, the tax would have generated additional revenues in excess of $1 billion.

The month long special session adjourned after failing to reach the necessary compromises to pass any legislation reforming the system of taxation. The Governor expressed his desire to call another special session in the fall of 1999.

Teacher Salary Equity

On July 8, 1998 the Tennessee Small School Systems et al. filed Motion in Chancery Court For The State of Tennessee for an Order requiting equalization of teachers, salaries across all school districts in the state. In the plaintiffs memorandum of law (No. 88-1812-II S. Ct. No. 01-501-9209-CH-00101) they indicate that on appeal from the original trial (July 1988) the Tennessee Supreme Court found that constitutionally impermissible disparities existed in the educational opportunities afforded under Tennessee's system of public schools. The plaintiffs also indicate:

> "Two Supreme court rulings later, and ten years after this case was filed, the statutory funding scheme continues to produce a great disparity in the revenues available to different school districts, and there continue to be constitutionally impermissible disparities in the educational opportunities afforded under Tennessee's system of public schools. Specifically, the state has failed to take action to remedy the teacher salary disparity noted by the Supreme Court which held that:"

[E]xclusion of teacher's salary increases from the equalization formula is of such magnitude that it would substantially impair the objectives of the plan; consequently, the plan must include equalization of teacher's salaries according to the BEP formula. (Tennessee Small School Systems V. McWherter, 894 S.W.2d 734, 738) (Tenn. 1995)

According to the Motion the plan not only did not provide for equalization of salaries but there had been little real progress toward equalization. In their exhibit of salary differentials, the plaintiffs offered testimony that the average teacher salary in Oak Ridge, the school system that paid the highest was $42,268 for the 1997-98 school year. By contrast the average salary in the Union County district which was the lowest in the state was $28,179 or a $14,089 disparity. The tenth highest district had an average salary of $37,312 but the tenth lowest had an average salary of $28,883 for a difference of $8,479. The twentieth average salary was $35,295 and the twentieth lowest was $29,251 for a difference of $6,044. It was the contention of the plaintiffs that a salary differential of $6,000 in today's highly mobile society would almost always draw a teacher from a poorer district to a richer one.

The plaintiffs have urged the court to find the education allocation portion (50%) of the local option sales tax unconstitutional and order that these funds be allocated on a per pupil basis in accordance with the BEP. They furthermore propose that equalization would require recapturing the education portion of local sales tax and and using it for salary equalization.

In their plea for relief, the plaintiffs are relying on the following cases:

- State V. Duncan 702 S.W.2d 163, 165 (Tenn. 1985), which established that the General Assembly may order local governments to fund their share of education costs in such manner as the legislature mandates as long as it meets constitutional standards.
- Hill V. Roberts, 217 S.W. 826, 828, (Tenn. 1919) which established that the county and city are but arms or instrumentalities of the state. The state, therefore, having full control of these agencies in the matter of taxation at least… may direct such agents to levy a tax, or may itself directly tax for the benefit of these agencies.
- Watson V. City of Memphis, 373 U.S. 526, 83 S. Ct. 1314, 10 L. Ed. 2nd 529 (1963), which established that the violation of constitutional rights must be corrected with all deliberate speed. Plaintiffs stated the opinion that ten years (in court) does not constitute "all deliberate speed"

At this writing, the court has not handed down a ruling and talks between the TSSS and non-TSSS school districts concerning a remedy which would be palatable to all concerned are underway.

Charter Schools

House Bill 1874, an Act to enact the Tennessee Charter Schools Act of 1999 was introduced into the legislature February 2, 1999. The bill died in committee. A similar bill was withdrawn in 1998 when it did not receive favorable reception by either the legislature or the teachers union. Under the proposed act only eighteen such schools could have been chartered by the local board of education or by the state department of education upon appeal until year 2002 when the quota would have been lifted and there was no limit on new or existing schools. Only six schools could have been chartered in each grand division (East, Middle & West) of the state for a period of three years. The charter schools would have been required to use only licensed teachers in their academic program that in itself must be a part of the state program of public education.

The bill called for charter schools to be exempt from all statutes, rules and regulations applicable to a school, a school board or a local education agency, although it could have complied with one or more provisions of statutes, rules or regulations. However in following sections of the bill (sections 11, 13, 14, 18,19,20,21,and 22) the powers of the state and local school district over the charter school was detailed. The act in Section 29 would have authorized the state board of education to promulgate rules and regulations for the administration of the act. Charter schools could have been formed by creating a new school or converting an existing school to charter status pursuant to the provisions of the act. Applications from programs serving at-risk or special needs students would have been given a preference in the approval process. No sponsor of a charter school could have contracted with a for-profit entity to operate the charter school on its behalf.

The charter schools would not have been allowed to charge tuition unless the student resided in a school district other than the charter district. The local board of education would have allocated funds to the charter school on the same basis as other schools with similar populations. The board of education of the local school district could have acted as fiscal agent for a charter school or distributed the allocated funds to the charter school to be administered in compliance with the charter agreement and state and federal laws. The charter schools would have received current year funding based on the current number of students they would have had in the previous year had they had the current student population. Funds could have been subsequently increased but they could not be decreased based on the number of students actually enrolled.

The bill provided that charter schools could have been funded by federal grants, grants, gifts, devises or donations from any private sources; and state funds appropriated for the support of the school, if any; and any other funds that may be received by the local school district. The bill encouraged charter schools, the local board of education and the state board of education to apply for federal funds appropriated specifically for the support of charter schools. Essentially, the charter schools would have mirrored the other schools within the district of the chartering authority.

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TEXAS

Introduction to Texas School Finance

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For the past half-century the responsibility for funding Texas public schools has been shared by the state and local school districts. In 1949, the 50th session of the Texas Legislature adopted Senate Bills 115, 116, and 117, collectively known as the Gilmer-Aikin Act, which provided for a reorganization of the state education administration and the establishment of the Minimum Foundation Program. The Minimum Foundation Program created a funding system that provided revenue for education from both state and local sources. These bills created a series of funding formulas and provided for a basic foundation grant to each school district.

The transformation of the school finance system, from the one contained in the Gilmer-Aikin bills to the current Foundation School Program (FSP), has been marked by a series of court challenges and legislative changes. In the last 25 years, five major lawsuits have been filed over the structure of school finance in Texas—one in the federal courts, *San Antonio v. Rodriguez (1973)*, and four in the state courts, *Edgewood I-IV (1985-1995)*. During that same period, seven major school finance bills have been debated and adopted by the Texas Legislature. Senate Bill 7, 73rd Legislature (1993), combined with the facilities provisions in House Bill 4, 75th Legislature (1997), form the basis of the current school finance system in Texas.

Sources of Revenue

Funding for Texas public school districts comes from three sources: local funds, primarily local property tax revenues; state funds, from a variety of revenue sources including general revenue, the available school fund, and special fees; and federal funds. For the 1998-99 school year, local, state, and federal funds for Texas public school districts totaled $21.5 billion. Approximately 51.4 percent of the funds come from local sources, 45.2 percent from state funding, and 3.3 percent from federal sources.

Local Funds. Local funds for public education in Texas come primarily from property taxes. Districts adopt two tax rates each year, one for maintenance and operations (M&O) and one for debt service (I&S), if the district has debt. M&O taxes are subject to a statutory maximum of $1.50 per $100 of taxable value. Districts may levy up to an additional $0.50 per $100 of taxable value in debt service taxes for repayment of bond issuance, for a total tax rate of up to $2.00. thee is no cap on debt issued before September 1, 1992.

State Funds. State funds for public education come from a variety of sources. Most funding for education comes from the General Revenue (GR) Fund through the Foundation School Fund. Other major revenue sources include the Available School Fund, revenues from the

Permanent School Fund, funds recaptured from wealthy school districts, lottery proceeds, and monies from the Telecommunications Infrastructure Fund. Additional state funds are appropriated to the Texas Retirement System.

Federal Funds. Federal funds represent the smallest of the three major revenue sources for Texas public schools. Although the amounts vary from year to year, federal funds generally make up between seven and eight percent of the total revenue for public education. About half of those funds go directly to school district with the rest funding programs and services of the Texas Education Agency and the regional education service centers.

Structure of the Foundation School Program (FSP)

The Texas public school funding system is a shared arrangement between the state and local school districts. Because school districts rely on the property tax as their revenue source, local tax revenues at similar tax rates vary widely across the state as property values vary. To offset this variation, the state provides funding to school districts in inverse relation to district wealth. School districts with higher property wealth receive less state funding than low-wealth school districts. State aid, provided in inverse relation to property wealth, equalizes overall school funding.

State and local funds for public education in Texas are distributed through a system of formulas known collectively as the Foundation School Program. The Texas Education Agency uses the FSP formulas to calculate the foundation program allotment for each district. The system consists of two tiers, including a number of adjustments and weights designed to distribute funding according to the characteristics of the school district and the students residing therein.

Tier 1. The base or "foundation" funding level in the Texas FSP is referred to as Tier 1. Calculation of Tier 1 funding begins with the Basic Allotment, which is the base level of funding for each student in average daily attendance (ADA). For the 1998-99 school year, the Basic Allotment is set at $2,396. The state multiplies the Basic Allotment by district adjustments that include the Cost of Education Index (CEI), the Small and Mid-Size District Allotments, and the Sparsity Adjustment.

The CEI is designed to reflect geographic cost variations that are beyond the control of the district. It is based primarily on teacher salaries of neighboring districts, on district size, and on the concentration of low-income students in a district. The Small and Mid-Size District Adjustments are designed to help smaller districts compensate for diseconomies of scale encountered in serving smaller student populations. Districts with fewer than 1,600 students receive the Small District Adjustment. Those districts with more than 1,600 but fewer than 5,000 students receive the Mid-Size District Adjustment. Districts with low enrollment and more than 300 square miles are eligible for the Sparsity Adjustment.

The result of adjusting the Basic Allotment by the district adjustments results in the Adjusted Allotment. Instructional program weights are applied to the Adjusted Allotment, based on the numbers of students enrolled in or served by various special programs. The program weights are applied for Special Education, Compensatory Education, Bilingual Education, Career and Technology Education (Vocational Programs), Gifted and Talented Education, and students participating in the Public Education Grant (PEG) program. Table 1 summarizes the program weights.

Table 1
Instructional Program Weights in the FSP

Program	Description	Weight Value
Regular Education	Provides instruction in the regular education program.	no weight
Special Education	Provides additional funding for students with learning disabilities through a variety of instructional arrangements ranging from mainstream to homebound and hospital.	Weight ranges from 1.1 for mainstream to 5.0 for certain very restrictive settings.
Compensatory Education	Provides additional funding for students who are not performing at grade level. Funding is generated from enrollment in the Federal Free and Reduced Price Lunch program.	0.20 2.41 for pregnant students
Bilingual Education	Provides additional funding for students whose native language is not English.	0.10
Career and Technology Education	Provides additional funding for students enrolled in programs designed to teach career and vocational skills in grades 7-12.	.37
Gifted and Talented Education	Provides additional funding for the development and delivery of programs and services for gifted and talented students such as International Baccalaureate and Advanced Placement. Total funding may not exceed 5% of the district's average daily attendance.	.12
Public Education Grant (PEG)	Provides additional funding for each student using a PEG to attend school in a district other than the district in which the student resides. Students are eligible for the PEG if the campus they are assigned to had a TAAS passing rate of less than 50% within the previous 3 years.	.10

For Special Education and Vocational Education Programs, weights are calculated on a full-time equivalent (FTE) student basis. For other programs, weights are applied to ADA served in the program (or to the school lunch count for Compensatory Education) on an add-on basis.

Transportation funds are also included in Tier 1, but are not calculated on a per-pupil basis. Transportation funds for each school district are computed according the number of students and bus route miles in a district.

The total Tier 1 allotment for a school district is the sum of the Adjusted Allotments for each program category plus transportation costs. In 1997-98, this amount was approximately $2,680 per student. To participate in the school finance system, school districts are required to levy a tax rate of $0.86 per $100 of property value. The distribution of responsibility for funding Tier I is a function of the district's local property value. The Local Fund Assignment (LFA), the district's share of the Tier 1 cost, is the amount of revenue that can be raised at the $0.86 tax rate. Districts with sufficient wealth to generate the entire allotment on their own receive no state aid in Tier 1. Districts that cannot generate the entire amount from local revenues receive state aid to make up the difference between the LFA and the total Tier 1 allotment.

Tier 2. Tier 2 provides equalization funds to school districts beyond the base funding level in Tier 1. While districts are required to levy the Local Fund Assignment tax rate to receive state funds, the Tier 2 taxe rate is discretionary. Districts may levy up to $0.64 of tax rate in Tier 2, but they are not required by law to do so.

The Tier 2 tax rate generates resources for education in the form of a guaranteed yield. That is, one penny of tax rate will generate $21 per student in Weighted Average Daily Attendance (WADA) from a combination of local and state sources. Districts with property wealth below $210,000 generate local revenue, and the state provides enough funding so that the district has $21 per pupil per penny of tax rate. Districts with wealth above $210,000 per WADA and up to $280,000 per WADA will generate their yield entirely with local taxes, and districts with wealth above $210,000 per WADA will generate more than $21 per penny per pupil. Districts can generate Tier 2 guaranteed yield funds for maintenance and operations or debt service requirements.

Chapter 41 Wealth Sharing. Districts with wealth above $280,000 per WADA are subject to wealth reduction provisions of Chapter 41 of the Texas Education Code. These provisions are explained in more detail in the section entitled "Options for Wealth Equalization."

Facilities Funding

Since the 1997 school year, districts have been able to receive funds from a new guaranteed yield program for facilities to be used either for construction or lease-purchase of instructional facilities under the Instructional Facilities Allotment (IFA). For the 1997-1998 biennium, the legislature appropriated $200 million for facilities guaranteed yield funds.

Districts whose voters have granted authority to sell bonds to pay for instructional facilities may apply for assistance to the state. Assistance is based on the amount needed to service the debt and is limited to the lesser of the annual debt service payment or $250 per ADA. Districts with 400 students or fewer are eligible for the lesser of $100,000 per year or their actual debt payment. If the district participates in the IFA, the district debt service property tax levy and state aid will combine to yield $28 per penny of debt service tax. Because the state funds help pay debt service, the district may adopt a lower tax rate and levy fewer taxes than it would otherwise adopt if there were no state assistance. The lower tax rate is also called the "compressed" tax rate. State assistance for facilities funding is equalized, meaning that low-wealth districts receive more IFA state aid per penny of tax than higher wealth districts. Districts with wealth above $280,000 per WADA do not qualify for IFA, but their debt service tax rates are exempt from the wealth sharing provisions of Chapter 41 of the Texas Education Code.

Equalizing the System

The court battles over public education in Texas in the 1980s and 1990s were fought over the issue of equal access to resources for public education. At the crux of the argument in these cases was the heavy reliance on local property taxes to fund the public education system, and the great disparity in property values across the state. The property wealth differences made it difficult for each school district to have equal access to revenue. The FSP equalizes funding for public education in Texas by providing state aid to supplement local property taxes, and by limiting the total amount of property wealth per pupil that can be used to fund education in very wealthy districts. It provides substantially equal access to revenue at equal levels of taxation.

Tier 1 provides funding to school districts through the Basic Allotment, and district- and student- level adjustments. The amount of money a district receives from the state is a function of local property wealth per student. The lower the district property value, the greater the amount of state aid in Tier 1. The combination of state and local funds provides access to the same level of educational resources at the same tax rate.

While Tier 1, in combination with Chapter 41 wealth equalization, provides a complete equalization of resources at the same tax rate ($0.86), Tier 2 provides substantially equal access to resources at substantially equal tax rates. The state provides additional funding to school districts with low property values to equalize the amount of revenue per WADA available at a given tax rate. However, there is more variability in Tier 2. The state will equalize tax rates up to $1.50 for school districts with property value less than $210,000 per WADA (a yield of $21 per penny per WADA). Districts with property values in excess of $210,000 are able to generate more revenue. Districts with property values greater than $280,000 per WADA must take action to reduce their property value to $280,000 or less.

To equalize district ability to generate revenue, the FSP requires Chapter 41 districts (districts with wealth above the statutory threshold of $280,000 per WADA) to reduce their wealth by choosing one of five wealth sharing options. These options include school district consolidation, detachment of property (and annexation of that property to a low-wealth district), purchase of attendance credits from the state, contracting for the education of students in another school district, and creation (with lower wealth districts) of a regional or consolidated taxing unit. The options available to districts are laid out in Chapter 41 of the Texas Education Code. For the 1998-99 school year there were 93 districts subject to the wealth sharing provisions of Chapter 41. All of these districts chose either Option 3, the purchase of attendance credits, or Option 4, education of non-resident students. Options 3 and 4 recapture revenue from high-wealth districts. Some people refer to this as the "Robin Hood mechanism."

There are two exceptions to the recapture of funds in high-wealth districts. Debt service taxes are not subject to recapture, and can generate more than $28 per penny per pupil. The second exception applies to districts that are eligible under a hold-harmless provision to maintain their total revenue per pupil for the 1992-93 school year. Recapture is reduced (though usually not eliminated) by the hold-harmless provision. Hold-harmless in current law was originally scheduled to expire in 1996, but has been extended twice, and will expire September 1, 2000.

Results of Équalization Efforts

As a part of the *Edgewood* school finance litigation, the state developed a set of measures to test the level of equity in the school finance system. Three measures were presented to the district court, and were accepted as tests of the system. At the time the school finance system was declared constitutional. Table 2 shows the equity measures, their target levels, and the current law projections for equity in the system based on analysis of 1998 data by the Legislative Budget Board.

Table 2

Equity Measure	Target Level	Projected FY 2000	Projected FY 2001
Percent of students in the equalized system.	85%	83.1%	83.0%
Variation in revenue between highest and lowest wealth districts	$600 maximum	$422 – at $1.50 tax rate $715 – total tax rate	$382 – at $1.50 tax rate $658 – total tax rate
Percent of Equalized Revenue in the system	98%	95.1%	95.3%

Source: Legislative Budget Board, 1999.

The state's desire to meet the requirements of *Edgewood* has served to push funding for public education to a relatively high level of equalization. Since the early 1990s the Legislature has studied these measures as a part of their process of developing the state budget, and continued to increase public education funding in order to keep projected equity levels at or near the target levels. The Court has held that the Texas FSP is constitutional, meaning that it has been found to yield substantially equal amounts of revenue at substantially equal tax rates.

UTAH

A Retrospective Commentary on a Decade of School Finance in Utah: The Problem of Explaining Trends in the Finance of Public Education

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Introduction: Trends in Utah's Finance of Public Education

This short paper serves two grand purposes. The first is to provide a general review of Utah's finance of public schools for the last decade. Considering that this year is the eve of the decade (as well as century and millenium) it seems appropriate to provide such a retrospective view. Second, to try and explain the trends evident from such a review. Obviously, attention to either subject could occupy several much longer papers. The intention here is to draw attention to the distinction between reporting trends and explaining them. In other words, it is one thing to describe changes in funding or equity measures overtime, and another to explain them. The discussion begins with an overview of changes in Utah's economic and demographic characteristics. Next, measures of funding levels and finance equity overtime are reported. Finally, the paper concludes with muses about the problems associated with explaining such trends.

Economic Growth in Utah

Utah has experienced almost a decade of economic expansion and growth. The 1998 Economic Report of the Governor's Office of Planning and Budget described Utah's prosperity "as the longest sustained economic expansion in the state's history." The state's Gross State Product (GSP) has grown, on average since 1990, over 8% per year (after adjusting for inflation). The growth of new jobs has exceeded 3.0% for the last ten consecutive years. Utah's per capital income has steadily increased during this period, moving in rank from a 49th lowest place to 44th among the states.

The state's total budget for government and services has likewise steadily increased during this time period. The state's total budget trend is displayed in Figure 1 in the top line; the bottom line represents the budget for education, which is discussed later in the paper. After adjusting for inflation, the state's budget has grown, on average, 7.46% per year up until FY 1999-2000. The projected budget for this last year indicates a decline in growth (a negative growth of 1.2%). The concern of the legislature about the future of Utah's economy is expressed in this conservative projection. Legislators are, probably rightfully so, risk aversive and so it seems the long run of gambler's luck was just too much to bet on for the future.

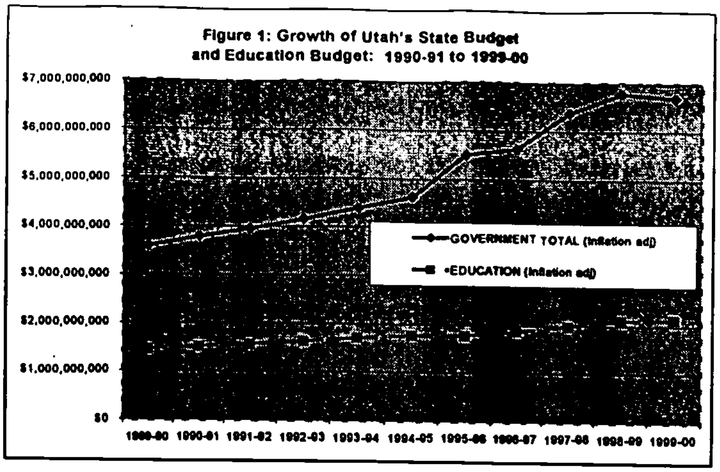


Figure 1: Growth of Utah's State Budget and Education Budget: 1990-91 to 1999-00

Tax Revenues

Revenues for both the sales and income taxes have consistently exceeded the projections of fiscal analysts during the last decade. The state's Income tax, which is dedicated to funding public education, has grown on average (after adjusting for inflation), by more than 9% per year. Consequently, state legislators have been saddled with the task of deciding how to spend the surpluses above projected budget estimates generated from such prosperity.

Revenues from local property taxes have remained relatively constant despite significant increases in property values. The key reason for this is that in 1993 the Legislature enacted a limit on revenues generated from property taxes for education. This cap adjusts the basic foundation tax such that new revenues from property can only increase relative to an adjustment for growth and inflation. Overtime, local property taxes have steadily declined despite significant increases in property values. Thus, most of the increase in revenues for public education have been garnered from the state's Income tax and not other sources. Indeed, the state's share of revenues necessary to fund Utah's Basic Educational program is up from 64% in 1989-90 to 74% in 1998-99.

Population and Enrollment Growth

In this section of the paper, the key point is to highlight the fact that during this period of economic prosperity the growth of student population has slowed, almost to zero. This circumstance stands in sharp contrast to the situation in the 1980s, when the State's natural growth was often above 4%, while the State's out-migration was about 1% of the student population. Enrollment growth during the 1980s for Utah's school system was consistently above 3% year (more than 15,000 new student per year). By the early 1990s the picture had changed significantly. First, natural growth had declined to less than 2% and, second, migration had shifted from a negative to a positive effect. Indeed, more than half of the student enrollment growth for the state was accounted for by in-migration. The pattern of enrollment growth continued to slow throughout the 1990s, and by the end of the decade both enrollment growth and in-migration were close to zero. Enrollment growth is predicted to increase dramatically in the coming decade, equal to that of the 1980s.

The point, however, is that during this period of unique economic prosperity, that state also enjoyed relatively low increases in student enrollment. Unlike the 1980s, when new money supported enrollment growth, the circumstances of the 1990s provided an opportunity to improve the fiscal picture for public education. During the 1980s, legislators argued that increasing the level of funding for pubic education was beyond their means. The 1990s provided both the means and opportunity to address the fact that Utah operates with one of the lowest per pupil expenditure levels in the country.

Fiscal Support for Public Education During Growth

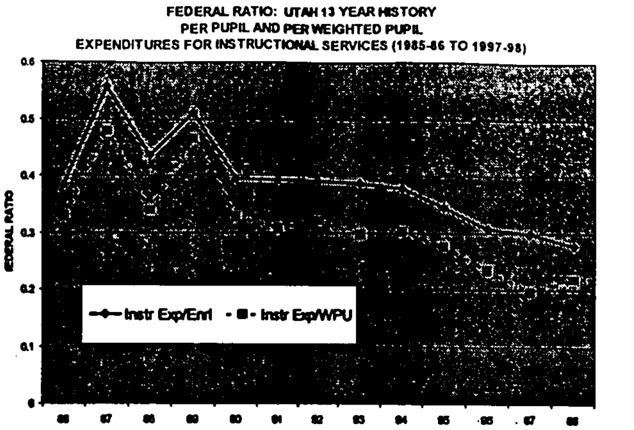
Figure 1, above displays the graph line for the state's public education budget during the 1990s. After adjusting for inflation, increases in funding for public education average about 4.3 per cent. These increases, while substantial, do not keep pace with the increase in total state funding, which averaged about 7.5% during this same time period. Thus, it is not surprising that as a percentage of the state's total budget, education has fallen from a high in FY 1989-90 of 41% to 31% in FY 1998-99.

Utah has long held the dubious distinction of providing the lowest per pupil expenditures for instruction, maintenance and operations, of all the states in America. During this decade of prosperity, the state has not managed to change that position much; it is still battling for last place among states in the Union. This may seem surprising give an average growth of revenues of about 4.3% per year. However, almost 2% of that revenue growth funded categorical projects, often with one time funding bills. Only 2.5% of the funding, on average for the decade, supported increases in basic funding for maintenance and operations (instruction and support). This figure is only slightly above the growth rate for the 1980s, which averaged 2.0% for the decade (adjusted for inflation). Additionally, funding for special education, which had been widely viewed as a bottomless pit by many Utahns, was capped with adjustments for inflation and enrollment growth. In other words, Utah's legislature did not pour new money into the WPU for basic programs, which would have committed future legislative bodies to a funding level that may or may not have been their priority.

Equity and Achievement in Utah's Finance of Public Schools

In this broad stroked paper, we want to make two quick but important points in this section. First the picture of school finance equity in Utah looks pretty good, and measures of school finance equity have steadily improved over the last decade. Second, despite a comparatively low level of per pupil funding for education, Utah's students continue to perform well on national standardized tests, including the NEAP evaluation, ACTs, SATs, and a statewide standardized performance test. Figure 2 provides a simple picture of school finance equity in Utah since the mid-1980s. The graph displays the results of the Federal Ratio calculations over time (the calculations have been adjusted for inflation and represent student-weighted averages). The top line represents the Federal Ratio using student head counts, while the bottom line incorporates additional WPUs assigned to school districts on the basis of need. In other words, the bottom line tests the hypothesis that the state's efforts

Figure 2



to promote vertical equity are significant. We conclude that such efforts are, indeed, significant.

The graph also provides evidence for the claim that the picture for equity has improved over time. By the 1990s the instability in this equity measure settles down and then steadily declines over time. The second matter of discussion in this section is related to indicators of academic achievement. Since the inception of Utah's Statewide Assessment Program in 1990 (a reaction to the reform/accountability movement of the 1980s) all 5th, 8th, and 11th graders are required to take a standardized achievement test each year. The results of these tests provide the basis by which the state evaluates the "effectiveness" of the school system. The nine year trend of these scores is unchanged overtime; year after year the state's average score falls at a nationally normed 50th percentile. Indeed, questions about the productivity of Utah's schools have emerged in recent years as a sensitive issue in contrast to the debate earlier in the decade that touted Utah's low per pupil expenditures and high performance measures as evidence of the system's productivity

Explaining trends in School Finance and equity measures

What are the causal factors in these trends? Politicians are wont to say that the good of any situation is a result of planned intention. Thus, in 1989-90, the Utah School Finance Task Force introduced a series of changes in the formulas funding public education, which took effect in FY 1992-93. However, the trend of equalization appears in Figure 2 to be established two years before the legislation of the task force was able to have effect. Moreover, it is customary to argue that the full effect of legislative action takes several years to play itself out in the data. Thus, with all due respect to planners, it is hard to claim that trends in equity are the product of planned change. Finally, if legislators were driven by equity concerns one would expect to see changes in the trend lines in Figure 2, such that the line for vertical equity improved at a different rate for that displayed for horizontal equity. These trends run in a parallel fashion suggesting that equalization efforts are structured in the state's basic formulas and not the planned changes in legislative action.

Another plausible explanation for improved measures of school finance equity is increases in levels of funding. If legislative increases were directed toward reducing disparities in expenditure levels for instructional services among Utah's 40 school districts then measures for equity would improve. Indeed, (Walters & Freeman, 1993, Fall) argue, in their evaluation of equity for Utah's public school finance plan, that the single most important driver of equity is the value of the Weighted Pupil Unit. The problem with this argument is that increases in the WPU have not really changed much over time. So unless one is willing to believe that the half of percentage increase in basic funding for instruction is significant then the graph of equity (which focuses on expenditures for instruction) is hard to explain. Cibulka (1987) argued many years ago, that there was little evidence that budgeting was organized around technical rationality. Despite research to the contrary the logic of school finance research rests heavily on assumptions of rationality. Cibulka attempted to explain budgeting trends relative to public choice theory; an institutional market of self-interest. Public choice theory is a useful framework for thinking about school finance and budgeting issues but we think a more useful framework is organizational economics (Barney & Ouchi, 1986). A key figure representing this framework is Oliver Williamson (1996), who summarizes his work in a recent publication entitled, The Mechanisms of Governance. The primary thesis of this work is that the structure of governance mechanisms represents a negotiation of purpose and relative costs. Technical rationality, by contrast, draws attention to questions of whether specific goals (equity or productivity) have been achieved. In such a perspective, the merits of school finance programs are judged relative to the degree to which such goals are achieved. By contrast, applying Williamson's focus on organization as a governance mechanism, the attention is on the degree to which a structure reduces the cost of complex organization. For school finance the issues include the problem of separation of ownership and management, uncertain production technologies, and information costs.

As noted in the beginning of this paper, there is not an opportunity to develop these ideas. Drawing attention, however, to school finance as an organizational device for resolving (or at least addressing) issues of ownership serves the goal of the paper to distinguish between descriptive accounts of school finance and causal models. Clear ownership is a key element to most decision-making analyses of organization but in education the problem of ownership is truly confounded. In some vague way the taxpayer is the owner of the service but educators are the de-facto owners. Legislators are agents of the public with the complicated responsibility of developing and funding an educational program that serves the "public's interest." Legislators are constantly negotiating the interests of the taxpayer with that of the student, in a fiscal environment of scarcity. The confusion about ownership underlies claims about the "socialist" character of bureaucracies and the inherent value of markets. Indeed, the underlying argument for choice, ala Chubb and Moe (1990), is that markets brings back a balance between ownership and management. That is that parents (and/or students) are owners of their education and hence should be the responsible managers of those opportunities. The problem is that such a perspective assumes a level of rationality and a supply of costless information, characteristics of most micro-economic assumption of market efficiency, facts that defy any pretense to the contrary. Education is a jointly produced commodity with significant spillover effects, facts that defies any clear assignment of rights, ownership, and benefits. More the cost of using the market system is significant and may lead to counter-intuitive conclusions (Akerlof, 1970).

This perspective draws attention on the merits of the governance mechanism itself rather than just of the values and goals imbued in the system. The issue here is not the maximization of some ideological principle of governance, such as student achievement or equity, but rather the minimization of transaction costs associated with the sustainability of governance mechanisms, especially where issues of ownership are in question. Education represents a complex mix of owner and management structures, which include representatives from taxpayers, students, parents, educators and administrators, as well as legislators. In such a view, school organization is anything but a monopoly but, rather, a robust negotiation of purpose and intention that survives the test of time.

Recognizing the role of school finance formulas as a governance mechanism helps bring to light the value of sustainability and cost minimization in a phenomenally complex set of exchanges. Achieving a mechanism that provides the means to negotiate these political contestable values is not a matter to ignore. The system is not perfect, as the case of New Jersey's Quality Education Act certainly demonstrates (Firestone, Goertz, & Natriello, 1998). However, neither is the system obviously "designed for failure" as some would like to argue. School-finance programs like Utah's, thus, require a new perspective by which to interpret and judge their merits. Describing the characteristics of these systems is important but without some kind of theoretical frame by which to interpret all these complex factors, the practice of describing school finance "facts" has the hollow ring of dust-bowl empiricism.

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VERMONT

The State of the State: Vermont's Act 60 Finance Reform

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In February 1997, in a unanimous state supreme court decision, the Vermont educational finance system was declared unconstitutional. Prior to the decision, average town property tax burdens ranged between zero and eight percent of income depending on the property wealth of the town. These disparities yielded a federal range ratio of 481% for town property wealth. Current expense varied from $2961 to $7726 per pupil. School tax rates ranged from a low of $0.02 to $2.40 per hundred dollars valuation. The state was ranked 46th in equity by the Corporation for Economic Development.

To meet the court order to correct these inequities, the legislature passed Act 60 which was signed into law on June 26, 1997. The legislature responded in a remarkable four months. This rapidity was due to the massive analyses which had been conducted in previous failed reform efforts. The court decision also came at the time that a new and reform-minded legislature was seated and when the state was coming out of a recession.

The new system is phased in over four years and has numerous "soft landing" provisions to ease tax increases for those towns previously paying at rates well below average. Fundamentally, the state aid system is a two-tier formula with a large block grant base first tier and a guaranteed yield second tier. With these two tiers, the state share was approximately 84% in FY99.

Elements of the New Finance System

Statewide Property Tax. A new statewide property tax system was phased-in, along with various small dedicated taxes and fees. The statewide property tax rate was set at $1.11 in FY99 based on fair market value. The rate was adjusted according to whether the town was over or under appraised.The statewide property tax was long considered as politically impossibly although endorsed by Governors from both parties across the years. The once unthinkable is now gaining in political and public acceptance.

Block Grant. A block grant of $5010 per pupil was provided. This grant is indexed to the cost of government goods and services. Use of other indicators is being considered.

Guaranteed Yield. A guaranteed yield for spending above the block grant. For FY2000, this guarantee is $40 per pupil for each penny increase in the local property tax. Each town annually sets the school budget at Town Meeting. The system was originally scheduled to move to an equalized yield but fearing efforts to escape recapture (see below), the legislature guaranteed the yield through FY01.

Recapture. The plan has a straightforward recapture provision where the state fills in any financial shortage due to lack of local fiscal capacity. On the other hand, towns that generate excess funds at the statewide property tax rate and/or in locally voted above-block spending see these monies recaptured and redistributed through the state's education fund.

Tax Burden Cap. One of the more attractive and novel features of the system is the cap on tax burden at 2% of income. This cap applies to the block grant and statewide property tax portions. If the local town votes higher expenditures, then the cap rises proportionately. Nevertheless, aside from non-homestead property and taxable incomes above $75,000, tax burdens are not higher than 3% of income in any town in the state.
The $75,000 threshold was relaxed in the spring, 1999 legislative session. It now phases out at higher income levels. Rather than a rebate of taxes paid, the state instituted a "prebate." That is, tax bills are calculated and the homestead owner receives a check from the state to help pay the local property tax bill.

Other Tax Limits. On a sliding income scale, total educational and municipal property taxes are capped at between 3.5% and 5% of income for those households earning less than $47,000. To protect the environment and inhibit uncontrolled development, land is taxed at current use rather than at the developed value.

Educational Quality Standards. As part of the reform, statewide tests are now mandated and an Adequate Yearly Progress plan has been put into place. Districts not meeting state standards will be given assistance. Ultimately, if performance continues to lag, the state could direct changes or re-organize the school district.

Categorical Programs. As part of the reforms, historically under-funded programs in special education, transportation, capital construction and technical education were fully funded. Fortunately, these reform energies occurred at the time that the state was moving from a recession to a booming economy. Special education is provided through a block grant to districts to allow local flexibility. Students requiring over $50,000 per year are reimbursed at 90% once this threshold is met. High-cost students below $50,000 receive a reimbursement roughly equivalent to 60%.

Small Schools. A new Limited English speaking categorical program was added. In spring, 1999, protections for small schools were added through a maximum loss provision due to enrollment fluctuations and by adding a sliding scale. The smaller the number of enrolled students, the greater the reimbursement.

Controversy

The system has spawned considerable controversy -- particularly among the "gold" towns. Many of the more property affluent towns had enjoyed tax rates at less than fifty cents. They were now facing a statewide property tax of $1.10 plus the amount they voted above the block grant. Needless to say, to have their tax rates increased to the same levels as the rest of the state was not warmly received. For them, this could mean a doubling or tripling of their low taxes while also having to manage heretofore unnecessary economies in school spending.

Considering that a number of second home owners held positions with national publications; articles and features in the New York Times, Time Magazine, and the Wall Street Journal castigated the system that caused rich systems to be taxed at the same level as the poor. As one Time magazine reporter said, "It's the first time I've seen the rich rebel against the poor."

Although a major campaign issue in Fall 1998, opponents were not able to translate their dissatisfaction into a changed legislature or administration. The Senate remained essentially unchanged but the House saw the Democratic majority lessened. Two key House architects of the plan, John Freidin and Paul Cillo, were targeted and defeated. The Governor won on a 58%-42% margin while the Lieutenant Governor, Doug Racine, a staunch reform advocate, squeaked by with a mere 1000 vote statewide margin of victory. Efforts to unseat the supreme court justices failed. There was extensive talk of a tax rebellion but, except for three small towns, this effort did not gain traction. The three towns withheld returning the recapture monies and the issue is winding through the courts.

Litigation. A host of court challenges were initiated claiming that the state did not have authority to tax locals, recapturing money was an illegal taking of local monies, recapturing thwarted the ability of towns to educate children, and the Declaration of Independence was violated. Of course, the Declaration of Independence had little legal standing but generated considerable media attention.

Three of these cases have been decided by the supreme court in favor of the reformed system. However, the town of Killington was successful in arguing the interpretation of a transition provision in the law. As this was a technical and temporary provision, it had little impact on the reforms.

Circumventing the Recapture. Schools are allowed to accept gifts which are not counted as revenue when recapture is calculated. It did not take long for some to figure that "donations," matched with financial support from the Freeman Foundation, would allow rich towns to evade recapture. In some towns, the amount of the "donation" was less than the increased taxes. The incentive was obvious.

A number of ways to close this loophole were mooted in the legislature. Facing unfavorable media and legislative attention as well as questions about their IRS status, the Freeman Foundation stated that they would not continue grants after two years. The legislature guaranteed the yield for these two years (rather than moving to an equalized yield) to protect poorer towns from having to pay for the "donations" through a lowered equalized yield. Based on the difficulty of maintaining massive fund-raising year after year, the conventional wisdom is that the concern will resolve itself. However, this is yet to be seen.

Aid to Private Schools. For towns that do not operate public schools, Vermont has had a voucher system since 1869. The genesis was not political but, rather, a means of assuring the convenient instruction of youth. These vouchers can be cashed at public or private schools. Religious schools could also be paid until this practice was disallowed in a 1961 state supreme court decision.

As part of the national political agenda, the Catholic Church mounted an effort to secure public funds for their schools under this provision. In Chittenden v. State of Vermont, the state supreme court unanimously ruled against this practice in 1999 citing the state Constitution which states that taxpayers cannot be compelled to support religious institutions.

A high school public school choice law has received preliminary approval but has not been finally resolved within the legislature. Political movements are underway to expand choice options to private schools and to establish charter schools. These latter efforts have not proven successful, to date.

Tax Cuts

With a booming economy, the state generated substantial excess revenues. The argument waxed as to where these cuts should take place. The Governor insisted that they be in the income tax in order to help business and the economy. More liberal legislators argued to cut property taxes or sales taxes. A compromise was struck that gave each a bit of what they wanted. The state income tax, indexed to the federal tax, was reduced while exemptions to the sales tax were increased. By putting surplus tax money into the education fund, the guaranteed yield was increased which resulted in a lowering of property taxes.

The spring 1999 legislative session saw modifications and fine-tuning to Act 60 in numerous areas. Republican efforts to substitute a percentage equalizing scheme without recapture (called Education Revenue Sharing) did not advance and probably will not advance given the composition of the legislature during this biennium. As with most states, educational funding remains a key issue. The outcome of the 2000 election may (or may not) bring a new composition to the legislature.

VIRGINIA

The State of the States: Commonwealth of Virginia
1999 General Assembly

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The 1999 Virginia General Assembly rightfully could be referred to as the *Year of the Car Tax*. The newly-elected Governor James Gilmore identified a key issue that proved decisive in the election of the top three political officers of the Commonwealth: the Governor, Lieutenant Governor, and Attorney's General. This is the first time in modern history that the entire executive branch were all republican and due to the coat-tails of Governor Gilmore's campaign, there was the added bonus of bringing virtually parity to both sides of the aisle. Prior to the 1998 election, the Senate was composed of 18 Republicans and 22 Democrats, while the Democrats enjoyed a 5 vote margin in the House of Delegates. Before the 1998 election, the Democrats held 52 seats in the House of Delegates and the Republicans, 47, with one independent. After the election the Democrats found themselves with 19 Senate seats and the Republicans 21; and in the House of Delegates, the Democratic membership had declined to 50 members while the Republicans increased their numbers to 49. However, the Speaker of the House, Thomas Moss, remained a Democrat. One delegate, Lacey Putney, the one independent, was highly courted by both political parties, but during the short 1999 Session, he usually aligned himself with the Republicans.

The *Car Tax* is actually entitled as a tax on one type of *tangible personal property* and is constitutionally segregated, so that it is reserved as an exclusive revenue source for local governments.[1] During the 1998 political campaign Governor Gilmore promised to eliminate, over a period of several years, the so-called *car tax*. The political campaign was particularly acrimonious and the revenues that ultimately may be lost to local communities were hotly disputed. The Democratic estimates, which were substantially greater than the estimates provided by the Republicans ultimately proved more accurate, but the Republicans won both the public relations battle and the election. Further complicating the issue, neither the General Assembly nor the Governor has the legal authority to eliminate this particular local revenue source without a change in the Virginia Constitution. However, after assuming office in 1999, Governor Gilmore immediately sought to fulfill his campaign promise to eliminate the *car tax* and decided to allocate state revenues directly to citizens to replace their car taxes currently being paid to the local governments. Unfortunately, the planned phase-in of the *car tax rebates*

[1] Constitution of Virginia (1971), Article X, ' 4 (1998).

have some current flaws and are likely to result in some unpleasant consequences in the years ahead.

- Taxes on *tangible personal property* are considered *ad valorem*. For the car tax, an individual's taxes are based on the value of that person's automobile(s). Since the more expensive vehicles are owned by the more affluent citizens who often reside in Northern Virginia, Richmond, and the Hampton Roads areas, the vast majority of the *car tax rebates* are flowing to the areas of the state with high local fiscal capacities (ability to pay for education out of local sources of revenue) and away from the impoverished areas of the Commonwealth. Since Virginia is periodically evaluated as maintaining one of the most disparate public school systems in the nation,[2] this type of an allocation system would appear to be poor public policy.

- The *car tax rebates* are financed from the Virginia General Fund which is supported primarily from personal income taxes and taxable retail sales receipts. Both are volatile revenues sources (elastic) and could prove disastrous as a stable revenue source whenever a moderate or severe recession occurs. The Virginia Constitution requires that the Governor close each fiscal year with a balanced budget and car tax rebates may suffer severe reductions to the localities. Although the localities technically are still levying *tangible personal property taxes*, there may not be an immediate shortfall of revenue to the local governments, but there will be considerable pressure placed on local governments by the public who have been receiving state car tax rebates, to reduce their *tangible personal property taxes* proportional to their state rebates.

- Perhaps the greatest tragedy of the *car tax rebate* program is that during the recession experienced by both the Commonwealth and the Nation during the early 1990s, severe reductions in fiscal resources were mandated for nearly all state agencies. Education, particularly higher education, was forced to reduce staff, eliminate programs, and possibly provide a lower quality system of public education. Other agencies, as suggested above, also were not spared the budget reductions. Exceptional resources were available during the 1999 General Assembly to rebuild the infrastructure, both human and physical capital, of the Commonwealth. Instead, the resources were used for tax relief to a state that routinely exerts a weak effort to fund governmental services, including public education.[3]

- However, the General Assembly did provide an additional increase in direct aid to localities for 1998-99 of $104.7 million, and an additional increase of $137.6 million for

[2]See for example, United States General Accounting Office, (February 5, 1997) School Finance: State Efforts to Reduce Funding Gaps Between Poor and Wealthy Districts (GAO/HEHS-97-31). Among 37 states whose funding favored wealthier districts, Virginia was fourth from the top, with only Maryland, Massachusetts, and Montana rated higher.

[3]Virginia was ranked 47th in state and local revenues appropriated for public elementary and secondary education as a percentage of personal income. Source: Salmon, R. G. and Sughrue, J., The Fiscal Capacity and Fiscal Effort Pursuant to Financing Virginia's Public Schools. (Richmond, VA: Virginia Education Association, February, 1998) p. 8. See also, National Education Association (updated yearly), Rankings of the States. (West Haven, CN: NEA Library).

1999-2000, financed primarily by the state budget surplus of over $1 billion. With these additional resources, the estimated state increase in direct aid to locality allocations for basic aid resulted in an increase of $305.00 per pupil in Average Daily Membership (ADM) or a percentage increase of 10.8 percent for 1998-99; and an increase of $164.00 per pupil for 1999-2000, or a percentage increase of 5.2 percent.[4]

The issue of returning lottery proceeds to localities for education became controversial during the session, due primarily to the distribution method proposed by Governor Gilmore. As background, Virginia is one of the few states that requires all of its schools districts to be fiscally dependent on their local governing agencies, i.e. County Boards of Supervisors for county school districts and City Councils for city school districts. County and city boundaries are also coterminous with school district boundaries. In order to understand the controversy, the current state funding formula, which is a modified foundation program, has to be understood. Arrayed below is the algebraic algorithm currently used by the Commonwealth of Virginia to establish the minimum local expenditures for each school district:

$$L \quad = \quad (AP-T) * LCI$$

Where:

L	=	Local Required Expenditures
A	=	Guaranteed Per Pupil Program
P	=	Numbers of Pupils
T	=	Dedicated State Sales Tax
LCI	=	Local Composite Index

The Local Composite Index (LCI) is a mathematical merger of three separate measures of fiscal capacity: True Valuation of Real and Public Service Corporations, Adjusted Gross Income (state determined) and Taxable Retail Sales Receipts. The LCI is calculated biennially and generally ranges from approximately 0.1600 to 0.8000. For this example, the state provides the low fiscal capacity school districts 84 percent of the guaranteed program cost and the school district provides the remaining 16 percent; the high capacity school districts receive 20 percent from the state and the school districts provide 80 percent. The LCI is truncated in order to insure that all school districts, regardless of local ability to pay, will receive no less than the 20 percent state guarantee.[5]

Governor Gilmore proposed that the lottery proceeds for each school district first be applied to the state share (1-LCI) and then added to the dedicated state sales tax. He further recommended that the entire lottery proceeds could be expended for any local purpose, although he recommended that they be used for public school capital outlay and debt service. The unfortunate consequence could actually lower the per pupil guarantee for all school districts because their local governing bodies would have the option of diverting the entire amounts of lottery proceeds to other local agencies.

[4] Includes lottery funds.
[5] See: Verstegen, D. A. (1997). Equity and Education Finance in Virginia. Educational Considerations, 25(1), 48-51.

Fortunately, bipartisan support led by Delegates C. Richard Cranwell (D), Thomas M. Jackson, Jr. (D), Glenn R. Croshaw (D), Jerrauld C. Jones (D), John H. Rust (R), Robert F. McDonnell (R), James H. Dillard (R), Anne C. Rhodes (R), Robert S. Bloxom (R) and Senators Richard L. Saslaw (D), R. Edward Houck (D), Thomas K. Norment, Jr. (R), J. Randy Forbes (R), and John H. Chichester (R) recognized the risk of Governor Gilmore's proposed distribution of lottery funds. Final action of the General Assembly distributed lottery revenues to school districts based on the state share of $198.80 per pupil in Average Daily Membership for the 1998-99 school year; and $195.00 per pupil in 1999-2000. These funds must be used solely for educational purposes. However, no more than 50 percent can be used for recurring costs (including instructional salaries and benefits) and no less than 50 percent can be used for non-recurring costs, defined as school construction, other related capital outlay and debt service payments. Unexpended lottery funds for the 1998-99 school year must be carried over by the localities and re-appropriated to their respective school districts for the 1999-2000 school year. This means that localities may spend up to 50 percent of the lottery revenues on school operating costs but they could spend all of the lottery proceeds on capital outlay. Direct lottery aid to public education for the second year of the biennium (1999-2000) is $310,300,000. The total biennial appropriation of lottery proceeds is $624,700,000.

In sum, while the Commonwealth of Virginia may have missed an opportunity to restore needed services and repair a deteriorating infrastructure, substantially increased funding for public elementary and secondary education was provided and targeted in part to needed capital outlay expenses--a preference of the Democrats. Thus, despite the apparent numerical superiority of the Republicans, the Democrats have, in large part, continued to control the education agenda, a continuing testimony to their political skills.

However, it is likely that in time the Commonwealth of Virginia will regret the overall policy decisions made and opportunities missed in the 1999 Session--particularly as related to reducing the obscene disparities of educational funding among the 137 Virginia school districts, and addressing the adequacy of the funding available for children and youth in public elementary and secondary schools in the Old Dominion.

WASHINGTON

Washington State School Finance 1999: A Special Focus on Teacher Salaries

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This paper provides current information about the funding of Washington's K-12 school finance system. It describes some of the basic features of the school finance system in Washington and portrays sources and levels of revenues and expenditures for K-12 public education. The paper concludes with a discussion of a current, pressing issue for Washington school finance: teacher salaries.

General Background

Schools in Washington state derive most of their revenues from state sources. Article 9, Section 1 of the Washington State Constitution declares that it is the "paramount duty" of the state to make ample provision for the education of all children residing in the state. In response to a 1977 court ruling *(Seattle v State of Washington),* the state assumed responsibility for funding "basic education" for a "uniform system of K-12 public schools." According to the court, the legislature is responsible for defining a basic education. The court also declared that financial support for basic education must be provided through state, not local, sources. The state legislature codified its interpretation of this responsibility in the Basic Education Act of 1977. This act defined full funding of basic education through the use of staff-to-student ratios which allocate resources to school districts. In 1983, again in response to a court ruling, the legislature expanded the definition of basic education to include special education programs for the handicapped, transitional bilingual programs, remediation assistance programs, and certain specified pupil transportation costs. The state thus assumed responsibility for funding these additional components of basic education. Distribution of state general apportionment revenue to each school district is based primarily on ratios of staff to students. Different ratios exist for each type of staff: certificated instructional, administrative, and classified. Additional revenues are allocated for smaller staffing ratios in grades K-3. The state provides funds to school districts based on their enrollment and the average salary allocation for each type of staff member. Basic education funds are also provided for Non-Employee Related Costs, that is, costs not associated with employee compensation, such as books, supplies and equipment, materials, and utilities.

Also in response to the court, the legislature enacted the Levy Lid Act in 1977. The Levy Lid Act placed restrictions on the amount of revenue school districts can raise locally. The levy lid was designed to limit local district levies to no more than 10 percent of a district's basic education allocation from the state and to ensure that such money provided enrichment programs at the local level. When the Levy Lid Act was passed, some school districts already collected local revenues that exceeded the 10 percent lid. These districts were given special authorization to continue their higher levies. Levy amounts for these districts were to be reduced gradually so as to eliminate higher levies by 1982. However, during the period from 1980-95, the Levy Lid Law was amended eleven times. In 1987, the levy limit was changed from ten percent to twenty percent. Under current law, districts can raise local levy amounts up to 24% of their state and federal allocation. Also in 1987, the legislature added an additional component of state funding called local effort assistance, or levy equalization aid. Local effort assistance provides a guaranteed yield for local levies to those districts which levy above-average local tax rates to compensate for low property tax wealth. Funds are distributed according to a formula which is driven by the extent to which a district's local tax effort exceeds the state average tax effort. Equalization aid payments to school districts began in January 1989. For the 1997-99 biennium, funds for levy equalization aid account for 1.8% of the state's general fund budget for K-12 education.

Sources of Revenue

Due to Washington's obligation to fund basic education programs and services from state sources, state revenue comprises the majority of funds for schools in Washington state (74.71% of operating revenue). For the 1997-98 school year, total state, local, and federal revenue for operating purposes exceeded $5.85 billion. Provided below (Figure 1) is a breakdown of the sources of revenue for Washington schools.

Figure 1
Sources of Revenue for Maintenance and Operations
1997-98
(amounts in thousands)

Source	Amount	Percent of Total
Local Property Taxes	$839,087	14.32
State Revenue	4,377,020	74.71
Federal Revenue	400,403	6.83
Other	242,324	4.14
TOTAL	$5,858,834	100

The largest share of Washington's state operating budget is devoted to K-12 education. For the 1997-99 biennium, 46.5% is appropriated to K-12 schools and programs. Of the total state operating budget for K-12 schools for the 1997-99 biennium, approximately 87% is allocated for basic education. General apportionment (that is, the base allocation) comprises 71.9% of the state's general fund allocation. Basic education includes general apportionment as well as programs and services such as pupil transportation, special education, institutional education, transitional bilingual education, and the state's Learning Assistance Program.

In 1995, a major change occurred in funding special education programs for the handicapped. During the 1995 legislative session, special education funding was set at an overall cap equal to no more than 12.7% of the total student population. Previously, special education funding had been allocated at different rates based on the type of handicapping conditions of enrolled students. In general, under the previous model, districts received higher per-student allocations for students exhibiting more severe handicapping conditions.

For the past 20 years, Washington has operated a program for low-performing students called the Learning Assistance Program (LAP). State funding for LAP during 1998-99 is $60,862,000. Districts qualify for LAP funding on the basis of a formula which accounts for the percentage of students performing below the fourth quartile on standardized tests and the percentage of students who apply for the Free or Reduced Price Lunch Program. Districts are responsible for allocating LAP funds to individual schools that serve eligible students from grades K-9.

The Washington State Transitional Bilingual Education Program serves students whose primary language is not English and whose deficiencies in English language skills impair their classroom learning. Between 1985 and 1995, bilingual students as a percentage of total K-12 enrollment grew from 1.9% to 5.1%. During this same period, the number of students to staff in bilingual programs grew from 14:1 to 20:1. In 1998-99 total state funding for bilingual education is approximately $31.28 million.

Since 1965, the Common School Construction Fund has provided state revenue for capital construction. This revenue is derived mostly from the sale of timber resources, the 1.3 million acres of state school lands set aside in 1889 to fund education. Beginning in 1990, the legislature added a state General Fund appropriation to the Common School Construction Fund. Additionally, Initiative 601, the state's spending limit, established conditions under which excess state revenue can be deposited in an Education Construction Fund. Moneys from this fund may be appropriated by the legislature for capital construction projects for higher education institutions and the K-12 system. School districts acquire funds for capital projects through bond sales, investment earnings on proceeds from these sales, and a state matching program for school construction and modernization. Districts receive state assistance based on their per-pupil property wealth.

Local property tax revenue is estimated to generate approximately $6.2 billion statewide during the 1997-99 biennium. Local taxes which generate revenues for schools often are referred to as "special levies" (because they require local voter approval) or "excess levies" (because they exceed the state's 1% limit on property taxes). Four types of levies can be raised: (1) maintenance and operations (M&O), one or two year levies devoted to district operations, (2) debt service, multi-year levies used to pay principal and interest on general obligation bonds, (3) capital projects, one to six year levies used to pay for school construction or remodeling, and (4) transportation vehicles, one or two year levies used to pay for school buses or other school transportation needs. Maintenance and operations levies constitute the most frequently occurring type of levy. All levies require voter approval.

The past two decades have seen significant changes in the percentage of school revenue from local tax sources. In 1974-75, for example, excess general fund levies accounted for almost one third (32.23%) of total revenue. As a direct result of changes in the state's school finance formula, that figure fell to 8% by 1980-81. Since 1980-81, the percentage of total revenue from local tax sources has slowly and steadily increased. In 1997-98, local tax sources reached 14.32% of total revenue.

Federal revenue accounts for 6.83% of total operating revenue in Washington. Approximately 30% of federal revenue is derived from the Elementary and Secondary School Improvement money, a little more than a quarter (28%) is derived from the School Food Services program, 12% from the Supplemental Handicapped fund, 10% from Federal Impact Aid, and 6% from federal forest revenues.

Levels of Expenditures

Washington's 1997-98 general fund expenditure by activity is provided in Figure 3. Spending on teaching activities accounted for approximately two-thirds (61.1%) of general fund expenditures, and administration expenditures (at both central and building levels) accounted for 13.4% of total general fund expenditures.

Figure 3
General Fund Expenditures by Activity
1997-98
(amounts in thousands)

Type of Activity	Amount	Percent of Total
Teaching	3,576,611	61.1
Teaching support	480,843	8.2
Other supports	1,015,856	17.3
Building Admin.	363,678	6.2
Central Admin.	416,502	7.2
TOTAL	5,853,490	100

The Budget Surplus, the Spending Limit, and Teacher Salaries

Washington state has been experiencing a more robust state economy than anticipated. Factors such as lower than expected rates of unemployment, inflation, and student enrollment growth, combined with higher consumer confidence, has contributed to a substantial state budget surplus for the 1999-2001 biennium. The dominant theme in the legislative debate over the 1999-2001 budget is the extent to which the budget surplus will be directed at increases in the state allocation formula for teacher salaries.

A complication in the debate about funding teacher salaries is Initiative 601, the state's spending limit, which was adopted by the voters in 1993 and went into effect in 1995. This initiative imposes a limit on the state's general fund expenditures, restricts the legislature's ability to raise taxes and fees, provides for a required reserve fund, and restricts the ability of the legislature to transfer program costs to local governments. The spending limit can be increased at a rate over the previous year which is not greater than the sum of population growth and inflation. If state revenues exceed that limit, the excess is deposited into an emergency reserve fund. In order to exceed the spending limit, a two-thirds vote of both houses and the majority vote of the people at a general state election are required.

The existence of a budget surplus has resulted in mounting pressure for the legislature to increase the statewide allocation formula for teacher compensation. Over the years, Washington's average teacher salary has typically hovered near the national average. According to statistics published by the American Federation of Teachers, in 1987-88, Washington ranked 18th in the nation in average teacher salary, posting an average teacher salary at 101% of the national average. In 1997-98, Washington ranked 19th in the nation, at $38,179, or 98.5% of the national average. However, the average salary for Washington's beginning teachers for 1997-98 ($23,933) is only 61.6% of the national average of $25,735, giving Washington a rank of 48th in the nation for beginning teacher salaries. Several observers attribute the pressure for increased state allocations for teacher salaries to the existence of a state budget surplus, a claim that teacher salaries have lost ground with respect the rise in the cost of living in the past five years, and the impact on teachers of the implementation of ambitious statewide reform measures which began in 1993. As mentioned previously, Washington's finance system is a full state funding model. Consequently, local districts are highly dependent on state revenues to support any increases in teacher salaries. Some brief background of how teacher salaries and benefits are funded by the state is provided below.

The Structure of Teacher Compensation

Since the passage of the Basic Education Act in 1977, a number of legislative actions were taken as part of an effort to control the costs of state funding for basic education. Some of these actions were focused on limiting the rate of growth of teacher salaries and benefits. Beginning in 1981-82, the state prohibited local school districts from providing teachers with an average salary and benefits level in excess of the amount set for the district by the legislature. These restrictions were relaxed by the legislature in 1987-88 when districts were allowed to exceed their salary limit by adding pay for additional time worked, additional responsibilities, or as separate incentives. These excess payments are issued through separate contracts with teachers. It is also important to note that the statewide salary allocation schedule is not adjusted for regional cost-of-living differences within the state, thereby creating disparities in the real purchasing power of teachers by geographic region of the state.

Currently, school districts receive a state allocation for teacher salaries and benefits based on a statewide salary allocation schedule which is set by the legislature for each biennium. The allocation schedule for the 97-99 biennium ranged from $22,950 for a beginning teacher with a Bachelor's degree to $48,141 for a teacher with 15 years or more experience and a Master's degree plus 90 credits (or a Ph.D.). There are 262 of the state's 296 districts which receive an allocation equal to the statewide allocation schedule. A 1995 report of the State of Washington Legislative Budget Committee found that "... the state allocation system, which was designed as a budget tool for the state to distribute money to local districts for teachers' salaries, has in effect become a compensation system at the local level."

Current Funding for Teacher Salaries

During the 1999 legislative session, the Washington Education Association, representing about 67,000 teachers and school employees, called for a 15 percent pay increase across all salary categories. Several teachers' associations in the Puget Sound region conducted one day walkouts in April 1999 to protest insufficient salary levels. The legislature responded with an increase over the biennium of 7.86% for all teachers, with teachers in their first six years of teaching receiving larger increases (from 15.41% for first year teachers to 10.02% for teachers with five years of service) and teachers with 16 or more years of service receiving a 10.02% increase over the biennium. The new funding also includes the addition of three calendar days for teacher professional development.

It is noteworthy that despite the state's widespread efforts regarding the development and implementation of statewide learning standards and performance-based assessments, most, if not all, of the fiscal attention at the state level for the next biennium is riveted on the issue of teacher salaries. There is little evidence of increased levels of support for new professional development programs nor is it clear how measures currently being considered to address the accountability aspects of the state's reform plan will be financed. Alternative forms of teacher compensation, such as knowledge or skills-based pay, have not received any significant legislative attention. It is likely that any substantive increases in Washington's operating budget for the next biennium will be devoted to increases in the statewide salary allocation schedule.

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WYOMING

The Next Chapter in Wyoming School Funding

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The Next Chapter in Wyoming School Funding

The difficulty of achieving equality of educational opportunities in American schools is not singular to any state. It has long been the goal of social and economic reform. The Wyoming constitution mandates "...that the legislature shall provide for the establishment and maintenance of a complete and uniform system of public instruction embracing free elementary schools of every kind and grade..." (Wyoming Constitution, 1890. Art 7 #1). Philosophically, no one quarrels with the direction from our forefathers in prescribing such a direction. The method for funding that mandate is a concern, although not one restricted to Wyoming. In the last months of 1992, at least 30 states reported having courts deal with litigation on educational finance issues (Wood, 1992). Things do not appear to be getting any better.

The purpose of this paper was to analyze the issues in Wyoming school finance litigation and legislation for the 1998 - 2000 school years. Litigation has been in process since the Supreme court decided in Campbell County School District v. State (1995) that parts of the state's finance system was unconstitutional. That litigation set into motion new legislation which is still being debated and litigated by dissatisfied parties.

The comprehensive court opinion in Campbell will likely influence and inform the many school finance decisions that continue to occur in other states. The issues raised in Campbell are significant to legal scholars as well to state constituents since the litigation points to important structural tensions between and among the three traditional branches of government. (Heise, 1998)

By mandating school finance reform in Wyoming, the Supreme Court prompted lawmakers into passing legislation that they perhaps would have been inclined to pass if not for the numerous political pressures. Unlike prior legislation, however, the Supreme Court in Campbell (1995) compelled the legislature to outline a system which would determine what constituted a proper education for all students and then determine a mechanism by which to fund such an education. All this was to be accomplished in a little over a year, by July 1997.

The legislature responded by selecting Management Analysis and Planning Associates LLC (MAP) as an independent contractor to conduct a cost of education study. The model proposed by the MAP incorporated some of the best features of past finance practices, while attempting to address the deficiencies addressed by the Supreme Court decision. The plan was to have a phase in period of several years and the legislature was to work on it in the

1998 session. When the legislative committees working with the MAP presented the governor with the plan on July 1, 1997, the original litigants in Campbell (1995) decided to go back to court. They contended that the Supreme Court had not intended for a plan for equitable funding be developed over an extended period of time, thus they believed the new plan was unconstitutional. The Court responded that the legislative plan indicated positive movement toward meeting the Court's intent and held for the State. The Court, however, did indicated that it would revisit the issue after the 1998 legislative session.

The Court maintained oversight of the legislative efforts in 1998. Under the new MAP formula, 18 of the 49 school districts stood to lose money and 31 schools (mostly small school districts) questioned some of the elements of the plan. Other concerns of the litigants centered around issues of funding for small schools, the definition of 'small but necessary school', and, the hold harmless provision which small schools claim allow cuts to become incrementally bigger each year. If these concerns were not addressed, the group of 31 schools indicated they had no choice but to return to court.

In July of 1998, the MAP Model, called the Educational Resource Model by the authors of MAP, went into effect. The small school representatives revised their strategy in contesting the new plan and attempted to negotiate a finance scheme that would protect the interests of their constituents. The negotiations were successfully carried out by working with the state executive and legislative offices. The concerns of the small schools then became a part of the agenda of the 1999 session of the legislature. The small schools formed a coalition of 23 school districts and employed a former legislator as its on-site lobbyist. The projected return to court was postponed pending the outcome of the legislative session. For the most part the small schools coalition proved successful.

The writers of the Educational Resource Model said, "The Educational Resources Model should be seen as an analytical tool by which legislative decisions can more rationally be made." (Education Resource Block Grant Model for Wyoming School Finance, p.2) The 1999 legislative finance package used the MAP proposal to refine the statutes the legislature enacted in 1998.

The Educational Resource Model made provisions for a formula that included computations for: teachers, teacher seniority, aides, pupil support, media, school administration, supplies, instructional equipment, food service, special education, economically disadvantages students, limited English speaking students, student activities, professional development, assessments, district expenditures that included operation and maintenance, leadership and transportation (See Appendix A). The model also embraced funding for necessary small schools, regional cost of living adjustments and a provision to hold harmless those districts that may suffer reduced state allocations.

Meanwhile, the district court, the Supreme Court's eyes and ears, decided to hold off on ruling on the constitutionality of legislative actions until after the 1999 legislature had done its duty. As of this date, no one has asked for a hearing before the court.

The 1999 legislature generally "tweaked" the formula to assist smaller schools. The major revisions to the 1998 model included: lowering the prototypical high school class size from 21 to 19 students, activities, special education and transportation would all be reimbursed at 100 percent of a school district's cost and alternative high schools would be counted as a separate school rather than as a part of the enrollment of an existing high school.

Particularly important to small schools was a formula change that made school districts with fewer than 1300 students eligible for administrative and maintenance costs. Another change was to fund multiple sites at $50,000 per site.

The hold harmless feature in the 1998 statutes was maintained. That feature drops from the formula after the 1999 – 2000 school year. All in all, about $25,000,000 was added to public school allocations over that of the previous year.

As a kind of after thought the 1999 legislature mandated foreign language instruction for grades K – 2 by the year 2003.

The Effects of the Legislation

Although the data supplied by the legislative service office and the state department of education are issued with the caveat, "estimates are based upon best information available, illustration purposes only, it appears that Wyoming school districts will have from $6300 to $15,000 per pupil support for the 1999 – 2000 school year. The average per pupil expenditure for next year will be in the neighborhood of $7,000.

The questions abound: will either the so-called large or small schools go back to court arguing points that they deem inimical to their best interests? Will the decline in Wyoming student populations require further legislative actions? And finally, will the projected short fall in state revenues in the future impact school finance in the Equality State?

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APPENDIX A

WYOMING PROTOTYPICAL MODEL ELEMENTARY SCHOOL: K-5; 288 STUDENTS; CLASS SIZE 16 PRELIMINARY COSTS

Description	Units	Salary Cost	Mandatory Benefit	Health Benefit	Total Cost
A. Personnel					
Teachers	20	$31,758	$6,034	$3,641	$828,660
Substitute Teachers (5%)	0.9	$9,450	$723		$9,156
Aides (FTE)	3	$10,080	$2,520		$37,800
Pupil Support	1.5	$31,758	$6,034	$3,641	$62,150
Library/Media	1	$31,758	$6,034	$3,641	$41,433
Certif. Librarian					
Media Assistant		$10,080			
Technician					
School Administration	1	$50,877	$9,667	$3,641	$64,185
Clerical/Data Entry	2	$16,000	$3,040	$3,641	$45,362
Operations	2.5	$20,000	$3,800	$3,641	$68,603
B. Supplies and Instructional Materials					$60,443
C. Equipment					$40,152
D. Food Service					
E. Categorical Aid					
1. Special Education					$204,494
2. Limited English Speaking					
3. Disadvantaged Youth					
4. Gifted					$1,296
F. Student Activities					$5,184
G. Professional Development					$26,352
H. Assessment					$7,200
I. District Expenditure					
Maintenance and Operations					$93,600
Administration					$115,981
Transportation					$77,184
Total Cost					$1,789,235
Adj.$/ADM					$6,213

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WYOMING PROTOTYPICAL MODEL MIDDLE/JR. HIGH SCHOOL:
6-8; 300 STUDENTS; CLASS SIZE 20
PRELIMINARY

Description	Units	Salary Cost	Mandatory Benefit	Health Benefit	Total Cost
A. Personnel					
Teachers	17.5	$31,758	$6,034	$3,641	$725,078
Substitute Teachers (5%)	1	$9,188	$703		$8,654
Aides (FTE)	3	$10,080	$2,520		$37,800
Pupil Support	3	$31,758	$6,034	$3,641	$124,299
Library/Media					
Certif. Librarian	1	$31,758	$6,034	$3,641	$41,433
Media Assistant Technician	1.5	$18,000	$3,420	$3,641	$37,592
School Administration	1	$50,792	$9,650	$3,641	$64,083
Clerical/Data Entry	2	$16,000	$3,040	$3,641	$45,362
Operations	3	$20, 000	$3,800	$3,641	$82,323
B. Supplies and Instructional Materials					$55,318
C. Equipment					$46,292
D. Food Service					$213,015
E. Categorical Aid					
1. Special Education					
2. Limited English Speaking					
3. Disadvantaged Youth					
4. Gifted					$1,350
F. Student Activities					$13,800
G. Professional Development					$27,450
H. Assessment					$7,500
I. District Expenditure					
Maintenance and Operations					$112,500
Administration					$147,000
Transportation					$80,400
Total Cost					$1,871,248
Adj.$/ADM					$6,237

WYOMING PROTOTYPICAL MODELHIGH SCHOCL:
9 - 12; 600 STUDENTS; CLASS SIZE 21
PRELIMINARY COSTS

Description	Units	Salary Cost	Mandatory Benefit	Health Benefit	Total Cost
A. Personnel					
Teachers	33.3	$31,758	$6,034	$3,641	$1,381,101
Substitute Teachers (5%)	1.7	$20,825	$1,593		$38,111
Aides (FTE)	6	$10,080	$2,520		$75,600
Pupil Support	5	$31,758	$6,034	$3,641	$207,165
Library/Media					
Certif. Librarian	1	$31,758	$6,034	$3,641	$41,433
Media Assistant	2	$18,000	$3,420	$3,641	$50,122
Technician					
School Administration	1	$53,071	$10,083	$3,641	$66,795
	1	$47,675	$9,058	$3,641	$60,374
Clerical/Data Entry	5	$16,000	$3,040	$3,641	$113,405
Operations	5	$20,000	$3,800	$3,641	$137,205
B. Supplies and Instructional Materials					$161,627
C. Equipment					$102,090
D. Food Service					
E. Categorical Aid					
1. Special Education					$426,029
2. Limited English Speaking					
3. Disadvantaged Youth					
4. Gifted					$2,700
F. Student Activities					$105,000
G. Professional Development					$58,500
H. Assessment					$15,000
I. District Expenditure					
Maintenance and Operations					$342,000
Administration					$444,000
Transportation					$160,800
Total Cost					$3,989,058
Adj.$/ADM					$6,648

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DELEWARE

Accountability and Reform in Delaware

Yasser Nakib
The George Washington University

Overview

Delaware, like many other states is currently undergoing many initiatives and proposals of educational reform that promise to significantly transform its K-12 educational system. The highlight for the year 1999 has been the attempt to pass very ambitious and politically charged Accountability guidelines, especially those establishing the responsibilities for educators using refined and critical, although controversial, measures. A small state with only 19 school districts, Delaware is very much similar to other states in the dynamics and complexities of the economic, political and social structures that shape its state educational policies. The reform initiatives that started early in this decade and are continuing owing to the vigor of the state governor and the eagerness of the state legislatures, have certainly created an aura of change and a sense of urgency to meet the needs and establish the responsibilities of the state's educational system, as it serves a growing student population well into the next century. Although some of those reforms have been swift achieving qualified success, many remain slow in their adoption and implementation, not to mention their effectiveness. The state government is forging ahead by mandating comprehensive and quite ambitious accountability guidelines. In a state where government currently provides almost two-third of school funding, the latest economic windfall has not only allowed the funding of most of the legislated reforms, but also contributed to the acceptance of most of these reforms which would otherwise be hard to adopt. Likewise, the existence of a state budget surplus has spurred many radical proposals that would reshape the way K-12 education is funded. Substantive reforms to the way state-provided school funds are distributed remain, however, elusive.

Delaware is the second smallest state in the nation, is 4th smallest in population (nearly 739,000), but the 7th most densely populated state. Public Education, as in most other states, consumes the highest percentage of state funds (34.1%). In 1997-98, the state enrolled 111,960 pupils (48th in the nation) in 174 public schools within the 19 school districts in its 3 counties. Of those schools, 31 are high schools, 114 are elementary and middle, 17 are early education, and 14n are special education schools. About 37 percent of enrolled pupils are considered minority, and about 13 percent are enrolled in special education programs. The state employs 7,991 professional staff, of whom 6,794 are classroom teachers (85%). Of the classroom teachers, 47.4 percent hold masters level and higher degrees. With about 15.1 years of experience, they earn an average salary of $42,439 (12th in the nation). Current 1997-98 expenditures of $7,234 per pupil for public elementary and secondary schools ranked Delaware 7th in the nation. The state provides higher than average support for public K-12 education (66.5%), making up for the relatively low contribution by local governments (28.1%). Federal revenue provides the remaining 5.3%.[1]

After over a decade of declining K-12 public school enrollment between 1975 and 1985, the state experienced a reversal of trend over the next eleven years with an average of about 1.6% growth each year. However over the same period, classroom teaching staff increased by only 1.3% overall, with a relatively higher proportion employed in special rather than regular instructional programs. As a result, estimates of regular class size as revealed by the pupil-to-teacher ratio have increased. This lead to the recent reform initiative to reduce the average class size. The state legislature and the governor have been exceptionally active during the last three years in proposing and implementing various reforms to the structure and the process, which pays for educational services. The state is also currently undergoing a process of debate and analysis of the methods by which education funds are raised and distributed. This is occurring while the state is still dealing with the adoption of other reforms that include new and comprehensive educational standards, accountability, and school choice. The impact of these reforms has focused attention on many finance related issues, primarily the way the state has been providing funds for its public school system and the role of accountability at the local level.

The School Funding Process

State support for public schools in Delaware is provided through state General Revenue funds with no earmarked taxes or fees for education. Funding revenue and distribution are primarily determined by five major components (School District Operation funds); three are termed "divisions", and two cover some of the districts' transportation and debt service costs. Division I, is the primary component that is determined by enrollment, through a "unit" (primarily the equivalent of the number of students per staff) funding system. It drives the allocation of personnel (weighted "units" based on Average Daily Membership) that eventually determines the primary component of funding depending on a state salaries and benefits scale.[2] In 1998-99, this fund provided nearly 76 percent of total state appropriations to districts, which pays roughly 70 percent of all districts' personnel expenditures, ranging from teaching to administrative to support staff. The second component of the formula, Division II, funds all other school costs (excluding transportation and debt service) such as material, supplies, and energy costs. Those funds are flat grants based on "units" of enrollment. The third component, Division III, is an equalizing fund used to compensate for fund-raising disparities between property rich and poor districts. Equalization funds are distributed in an inverse relationship to local property wealth based on enrollment. These are incrementally capped at a certain percentage for a given level of property wealth using an ability index. Districts have a considerable discretion in their usage, although those funds only amount to about 8 percent of total state appropriations. The

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[1] Expenditure figures provided in this chapter are actual figures drawn from *Report of Education Statistics: 1997-98*, while rankings are drawn from slightly adjusted figures/estimates in *1996-97 Estimates of School Statistics*.

[2] Delaware Code, Title 14.